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MISCELLANEOUS

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ON THE NATURE OF MERCANTILIST TARIFF

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The Mercantilist view of foreign trade can be unequivocally stated. Foreign trade was considered by the Mercantilists to be the means by which a nation could attract to itself 'wealth and treasure' from abroad. It, however, was to assume a special character, for, by the imposition of import restrictions, the exports were sought to predominate the imports. The main burden centred around the so-called favourable balance of trade, and this was in perfect harmony with the Mercantilist conception of the rôle of precious metals in the sphere of public finance, expressed so succinctly by Colbert who said, "Trade is the source of (public) finance and (public) finance is the vital source of war."[1] It is proposed to show in course of this paper that in conformity with this general Mercantilist outlook in regard to the precious metals and their bearing on public finance, the import and export duties as advocated by the Mercantilist writers, were, from the standpoint of ultimate purpose, revenue-yielding.

Evidence in support of this proposition is best sought in the writings of Sir William Petty. This is for two reasons. In the first place, Petty elaborated on this

[1] Quoted by Heckscher in his *Mercantilism* (Vol. II), p. 17, abbreviated hereinafter as Hk. II. 17, the last figure including the page-mark.

question in greater detail than any other Mercantilist writer. In the second place—and this is much the more important consideration—since it is claimed in many quarters[2] that Sir William Petty was the most rational and enlightened of the Mercantilist writers belonging to the latter half of the 17th century, it is perhaps fair to draw mainly on *his* writings rather than on any other's, so that it may not be argued in any sense that the proposition is ill-founded.

Petty's admirers claim for him the distinction of being one of the few eminent British economists of his period 'who laid the foundation of a . . . more rational doctrine' than can ordinarily be attributed to a Mercantilist. While this claim is easily conceded, it does not certainly follow that Petty was so free from the prevailing mercantilist notions that he could see the advantages of unrestricted commerce. For, Petty advocated the imposition of both import and export duties.

The measures of export duties which he suggested, were clearly prompted by the mercantilist instinct of increasing the money receipts from exports, with a view to adding to the 'riches' of the country. The duty, while naturally unable to stimulate exports, could not diminish them either, for, its imposition was contemplated on an export like tin, 'a native commodity which governs the Market abroad.' Meade in Cornwall at 4d. a pound, and capable of yielding 12d. in France, it was evidently a monopolised commodity which could sell at a maximum price of 12d. a pound. The Sovereign, so was the argument, ought to have his share in this potential and 'extraordinary' profit. And the best way of realising it was to place on the commodity an export duty such that all home producers might be compelled to take in the slack, and sell the commodity at the maximum price. Thus the export duty would earn in the first instance an extra income for the producers, and subsequently transfer it to the coffers of the State, without diminishing the volume of export itself. If, however, it was to be assumed that the producers were by combination already realising the highest price, the export duty would not make any new addition to the income of the producers, but would effect its diversion straightway.

[2] Hull's Introduction to Petty's Economic Writings, p. lxix.

With regard to import duty, Petty perhaps was more aggressively of a mercantilist disposition. Customs upon imported commodities, said he, should be placed in respect of "'all things ready and ripe for Consumption," so that they "may be made somewhat dearer than the same things grown or made at home;"[3] and, further, "that all Superfluities tending to Luxury and sin, might be loaded with so much Impost, as to serve . . . to restrain the use of them."[4] The main purpose here was to discourage imports in order that the balance of trade might be as favourable as it could be.[5] Accordingly, for goods producible both at home and abroad, import duties were advocated with a view to confining home consumption to the domestic market, while goods of exclusively foreign origin were to be completely shut out by the erection of a sufficiently high tariff barrier.

The conclusion then is this. Petty was enough of a Mercantilist not to overlook the importance of export trade, and that is why he confined the use of export duties to special commodities like tin where the duty would merely increase its price in the foreign market and, therefore, the money incomes of the home producers, without diminishing the actual volume of its export. Secondly, he had also enough of that mercantilist weakness for 'riches' which led him to favour import duties on all consumption goods, producible and non-producible at home, so as to decrease the volume of import from abroad. The result is that the export duties were *directly* productive of revenue to the State in so far as the Sovereign shared in the extra-ordinary profit of the home producers. The import duties were also *ultimately* so, to the extent to which the additional 'riches' consequential upon the restriction of imports, could be diverted to the coffers of the State.

But the question arises as to whether behind all this, there was also an appreciation of the protective power which customs might wield against foreign competition for the industrial development of a country.

The history of external economic policy of the 17th-century Europe is characterised by a phase of which the

[3] *Treatise* (Ed. Hull), Vol. I, Ch. VI, p. 56.

[4] *Ibid.*

[5] We shall return to this point later.

keynote was the fostering of national industries. We cannot here do better than quote Schmoller who described the general features of this policy in the following words: "Difficulties were put in the way of the importation of manufactured goods, and their production and exportation were favoured by the prohibition of the export of raw materials, by bounties on export, and by commercial treaties. Encouragement was given to domestic shipping, to the fisheries, and to the coasting trade by restricting or forbidding foreign competition. Commerce with the colonies, and the supplying of them with European wares, was reserved for the mother country. The importation of colonial produce had to take place directly from the colony itself, and not by way of other European ports; and everywhere an attempt was made to establish direct trading relations by great privileged trading companies, and by state aid in manifold ways . . . . The thought pursued everywhere was this: as competition with other countries fluctuated up and down, to cast the weight of the power of the State into the scales of the balance in the way demanded in each case by national interests."[6]

This scheme of commercial policy which the different governments of Europe generally adopted for the safeguarding of national industries, ultimately culminated into Protectionism. But it would be losing a great point of precision if any body were to conclude that Mercantilism as such had anything to do with it. Indeed, Thomas Mun's *Parable of the Husbandman*[7] of which the moral seemed to consist in a shift of emphasis from a short-term view of things to a consideration of permanent effects—raises quite contrary suspicion, although it also needs to be mentioned that no Mercantilist writer is known to have advocated the degree of freedom to commerce, which the parable may impliedly suggest. Nor, again, did any Mercantilist writer ever put forward in support of import restrictions or export premiums, the long-term view "that by such measures home production could be increased to

[6] *The Mercantile System* (Ed. Ashley), pp. 58-59.

[7] The parable:—"(For) if we only behold the actions of the husbandman in the seed-time when he casteth away much good corn into the ground, we will rather accept him a madman than a husbandman: but we consider his labours in the harvest which is the end of his endeavours, we find the worth and plentiful increase of his actions."—*England's Treasures by Foreign Trade*, end of Ch. 4, p. 27.

such an extent that there would finally remain a greater total quantity of goods within the country."[8]

In his great work on *Mercantilism* Prof. Heckscher makes an interesting study. "(However) it is very remarkable," says he, "that as a rule mercantilism did *not* recognize precisely this criterion for protectionism," *viz.*, "the ultimate increase in the supply of available commodities which, according to Mun, represented the 'worth and plentiful encrease' of the husbandman's labour."[9] By this observation Professor Heckscher wishes to make out that the protectionist element in Mercantilism —of which, seemingly, the existence cannot be gainsaid—was inspired by considerations which were not quite the long-term prospects of abundant supply. And, on this assumption he makes an interesting analysis. He goes behind the mind of the producers whose interests had to be 'protected,' and traces the origin of Mercantilist protectionism to "a definite attitude towards goods, the 'fear of goods' or the 'gospel of high prices.' " From the producers' standpoint, explains Professor Heckscher, the danger—according to the Mercantilists—lay "in having too much, in not being able to dispose of the goods, and in having them remain on one's hands; while the object is to rid oneself of them as fast as possible."[10] This was the 'fear of goods,' and mercantilist protectionism, according to him, emanated out of this. So great, indeed, was the concern for unsold stock that the creation of 'a constant dearth in the home market' became the avowed object of all mercantilist (—tile?) regulations. As a result, 'native' consumption came to be increasingly discountenanced, and this attitude became crystallised in a demand for an export surplus,—a viewpoint which emerged out of three characteristic, if interconnected, notions, *viz.*,

(a) the necessity of increasing the stock of precious metals in the country,
(b) the desirability of an export surplus *per se*, and
(c) the idea of selling being an end in itself.

We might, if we chose, leave Professor Heckscher's viewpoint at this, without entering into any argument

[8] Hk. II. 114.
[9] *Ibid.*
[10] Hk. II. 57.

against his contention. For, although he means by 'protectionism' a policy "dominated by producers' interests," he guards "against a possible misunderstanding on this point" by warning the reader that, as used in his book "the word does not refer to the presence or absence of governmental measures, as such, interfering with economic activity."[11] That is to say, it is *not* protectionism as ordinarily understood.

"Protectionism," says Professor Heckscher, "(here) is taken to be the outcome of a definite attitude towards goods, the 'fear of goods' or the 'gospel of high prices.'" This connotation makes for at least two important charges against its author. The first of them is the connotation itself, which is so wide that any producers' policy designed with a view to promoting their interests, short of invoking the State aid, would fall under it. Thus restrictionism would also be a form of protectionism. It were better, indeed, if the 'fear of goods' and all that it allegedly implied in terms of practical policy, were expressed by a term other than 'protectionism' which from 'respectable antiquity' has stood for a shifting of the home producers' loss in view of foreign competition, to the domestic consumers through a system of import duties (or to the taxpayers through a system of bounties) levied by the State. Secondly,—and this is more important—even if the departure from its usual meaning is accepted, protectionism arising out of a fear of 'a dead stock called Plenty,' can hardly be traced to any Mercantilist writer. Plenty was considered the gravest danger by interested merchants who saw in the Mercantilist idea of an export surplus an intellectual support for their own eagerness to dispose of their goods, possibly in the foreign market. It is true, as Professor Heckscher points out, that native consumption was valueless in the eyes of the Mercantilists.[12] But from this it does not follow—as he seems to make out—that it was on account of this that imports were sought to be restricted or completely prohibited so that there might not arise in the country 'a dead stock called Plenty' occasioning the so-called fear of goods. Native consumption was considered valueless "Since by what is Consumed at Home, one loseth only what another gets, and the Nation in

[11] Hk. II. 58.

[12] Hk. II. 115.

General is not at all the Richer; but all Foreign Consumption is a Clear and Certain Profit" (Davenant). That is to say, if home consumption can be reduced, it would not only mean more exportation of home-made goods, but also less importation of foreign goods, and thus a greater export surplus. This certainly was mercantilism *par excellence*. On the other hand, producers' interest is not necessarily served by discounting native consumption. For, if the home market can take up the whole stock there can be no fear of goods, and more and more can be produced or imported from abroad and sold at home. Quite conceivably, it must have been producers who exclusively catered for foreign markets, or those whose supply exceeded the home demand, that rationalised their 'fear of goods' into the Mercantilist doctrine of export being an end in itself. But it will patently be a confusion if anybody were to conclude that, in emphasising the need for an export surplus, Mercantilists wanted to protect home producers from the 'fear of goods,'—although this is a species of protectionism with which, so far as our present context goes, we are not concerned.

Nor had the Mercantilists anything to do with protectionism as ordinarily understood. Their business was not to give select producers protection from foreign competition by the imposition of suitable duties. Confusion in this respect arises out of the almost universal advocacy of import duties, found in the Mercantilist literature. It is furthermore confirmed by instances in which the proposed import duty is sought to be made so heavy that it may shut out foreign goods altogether. But, as we have already suggested, the import duties—although they were not imposed with any immediate view to State revenue, were not also protective either. The main purpose—to repeat a suggestion already made—was to discourage imports so as to improve the balance of trade. Seemingly unproductive, the import duties were ultimately revenue-yielding.

Consider the import duties advocated by Sir William Petty. He divided dutiable goods into two classes: (1) all things ready and ripe for consumption and (2) all superfluities leading to luxury and sin. In respect of the first category of goods, import duties were recommended so that they "may be made somewhat dearer than the same things grown or made at home." Thus these were goods

which were producible both at home and abroad. As for superfluities tending to luxury and sin, they, according to Petty, might be loaded with 'so much impost as to serve . . . to restrain the use of them.' From which it follows that these were goods not producible at home, so that all that was necessary for restraining the use of them was to stop the foreign source of these goods. Now, an import duty imposed on goods not producible at home is certainly not protective. Protectionism thus does not follow from this second category of duties. What perhaps looks like protectionism is the other duty recommended on things 'ready and ripe for consumption,' for, such a duty is contemplated with a view to making them 'somewhat dearer than the same things grown or made at home.' In fact, it is the insufficient and often careless reading of this and similar observations of the Mercantilist writers that has led to the belief in certain quarters[13] that Mercantilist tariff was protectionist in aim. But whether Petty meant it to be so, can be ascertained only on an examination of his whole attitude towards customs duties, rather than from isolated remarks read apart from their contexts.

Petty was never in favour of customs duties. Admirers of Petty who have not sufficiently investigated the reason for this dislike, have found in it evidences of intellectual enlightenment far above the mercantilist order. In fact, however, it did not arise out of any policy of commercial freedom (for that is what 'enlightenment' is supposed to stand for) which Petty can be proved to have actually advocated. He simply thought that customs had outgrown their necessity and should, therefore, be abolished. According to him, " . . . Customs at the first were a proemium allowed the Prince for protecting the Carriage of Goods both inward and outward from the Pyrats . . . And finally, (that) the Customs had been an ensurance upon losses by enemies, as the ensurance now usual, is of the casualities of sea, winde, weather and Vessel, or altogether . . ."[14] "But," he added, "be it what it will, it is anciently established by Law, and ought to be paid until it shall be abolished. Only I take leave as an idle philosopher to discourse upon the Nature and Measures of it."[15] Petty's position in respect of customs is thus clear-

[13] *Vide* below, p. 9, et seq.
[14] *Treatise*, Vol. I, Ch. VI, p. 54.
[15] *Ibid.*

ly indicated. Petty never saw in them an instrument for protecting home industries from foreign competition. Having been purely of the nature of premiums for insurance against piracy on sea, they had in Petty's time outgrown their necessity. And Petty, while looking forward to their eventual abolition, discoursed upon the 'Nature and Measures' of them. It is against this whole background that we have to interpret the measures of customs upon imported commodities, which Petty suggested. So interpreted, import duties on all things ready and ripe for consumption, seem to have been advocated only with a view to confining home consumption to the domestic market so that the balance of trade might improve,—and with it, the coffers of the State.

Another observation of Petty, which on hasty judgment is capable of protectionist interpretation, is the following: ". . . all things not fully wrought and manufactured, as raw Hides, Wool, Beaver, Raw-silk, Cotton; as also Tools and Materials for Manufacture, as also Dyeing-stuff, etc., ought to be gently dealt with."[16] On this point, however, Adam Smith remarked as follows:

> "Though the encouragement of exportation, and the discouragement of importation, are the two great engines by which the mercantile system proposes to enrich every country, yet with regard to some particular commodities, it seems to follow an opposite plan: to discourage exportation and to encourage importation."

(*Wealth of Nations*, Bk. 4, Ch. 8—opening lines.)

But Adam Smith knew that this reversal of the usual practice of obstructing imports and encouraging exports, was not advocated with a view to any protectionist idea. Continuing he said:

> "Its ultimate object, however, it pretends, is always the same, to enrich the country by an advantageous balance of trade. It discourages the exportation of the materials of manufacture, and of the instruments of trade, in order to give our workmen an advantage, and to enable them to undersell those of other nations in all foreign markets: and by restraining, in this manner, the exportation of a few com-

[16] *Ibid.*, p. 56.

> modities, of no great price, it proposes to occasion a much greater and more valuable exportation of others. It encourages the importation of the materials of manufacture, in order that our own people may be enabled to work them up more cheaply, and thereby prevent a greater and more valuable importation of the manufactured commodities."
>
> (*Ibid.*)

Thus according to Adam Smith, the relaxation recommended in respect of raw materials and machinery, was directly attributable to the mercantilist pre-occupation with the balance of trade. This seems, indeed, to be a fair judgment. For, although the gentle treatment of these imports may, on analysis, be found to help and protect the home industries *vis-à-vis* their foreign rivals, the immediate purpose behind such a policy was undoubtedly conceived in terms of the balance of trade. Professor Heckscher agrees that 'this factor (balance of trade) played an important part,' although, according to him, 'equally important was the regard for employment.'[17] But whatever other motive there might have been, protectionism in the sense in which the term is ordinarily understood, seems to have been quite out of the picture.

In this connection the following observation of Marshall is eminently instructive:

> "When a Mercantilist policy prohibited, or taxed, or otherwise narrowed the purchasing of certain classes of things from foreigners, it might have claimed to resemble the shutter which is drawn partly across a fire, with the effect of lessening for the time its total supply of air; but which by concentrating the remainder on some burning coals hurries their dull red heat into a white glow, which spreads through the furnace and ultimately evokes a greater heat and a larger feed of air than if there had been no restriction."
>
> (*Industry & Trade*, App. D, 2, pp. 723-24.)

This was clearly in anticipation of Professor Heckscher who similarly remarked that "The long term view (the

[17] Hk. II. 146.

ultimate increase in the supply of available commodities) could also be given as a reason for temporary import restrictions . . ."[18] But Marshall added:

> ". . . Mercantile writers often seem to go close to this modern doctrine, but yet they miss it."
>
> (*Ibid.*)

And continuing in a foot-note, he said:

> "Thus Hales' *Discourse of the Commonwealth*, 1549, argues that foreign paper should be taxed up to a price which would enable it to be made in England; because 'they do not best provide for his grace's profit that procure only a present commodity, but rather that commodity that may long endure without the grief of his subjects.' But his explanation is disappointing. He does not state or imply that the country has latent natural advantages for the industry, which would enable it to thrive unaided if once it could outgrow its infant difficulties; for indeed the industry had already had a trial. His reason is that 'it were better for us to pay more to our own people for those wares, than less to strangers: for how little gain so-ever goes over, it is to us clear. But how much so-ever the gains be that go from one of us to another, it is all saved within the Realm.' Thus gold and silver are regarded *as the ultimate gains of work.*"
>
> (*Ibid.* Italics are mine.)

It would appear that Marshall was fully aware that Mercantilist devices such as import duties were designed purely with a view to the acquisition of precious metals. The explanation of taxes on foreign commodities, given in terms other than those of the country's 'latent natural advantages for the industry' is to Marshall disappointing, and he seems to regret that the Mercantilists should have missed such an obvious and important doctrine as Protection for the growth of Infant Industries. The regret and the disappointment are, however, both somewhat misplaced. For, the Mercantilist writers scarcely show any textual evidence of emancipation from their pre-occupation with the precious metals, Sir William Petty not excepted.

[18] *Ibid.*, p. 114.

Besides, it cannot very well be said that the Mercantilists missed an argument for Protection, for, they never sought any.

To the contention that Mercantilism did contemplate methods of protection for national industries, Lipson[19] lends his support. An examination of his views follows in the next few paragraphs.

About Mercantilism it is usually said by way of warning that Mercantilism does not stand for any *one* definite policy or doctrine. The misconception, said to be prevalent on this point, is attributed by Marshall to Adam Smith about whom he remarked as follows:

> "Adam Smith is less open than many other economists to the charge of formulating sharp, short statements as to things which appeared to be fixed and primary elements, but were really variable compounds. And yet he is perhaps more responsible than anyone else for the belief, which long prevailed, that Mercantilism was a definite, unified body of doctrine; and that it worked mischief by inventing diverse shackles which hampered the natural freedom of trade. We now know that it was not a body of definite doctrines which arose suddenly, quickly overcame all minds, and after a time was wholly discarded: it was rather a tendency of thought and sentiment which has its roots in the far past; which never, even at the height of its power, completely dominated all minds, and which has not yet completely disappeared.
>
> (*Industry and Trade*, App. D, pp. 719-20.)

This is no doubt substantially true. Mercantilism, indeed, is a convenient phrase which may be used widely to denote quite a number of allied intellectual aspects of economic statecrafts that characterised the period in European history during which the growth of nation-states combined effectively with the growth of money economy and expansion of commerce. But the elasticity so conceded in respect of its meaning, has often been grossly misused. The phrase 'Mercantile System' has

[19] *The Economic History of England*, Vol. 3, Ch. 4, Sec. 1.

been employed by many writers to stand for such a wide variety of activities as renders its study as a theoretical system unreal. Consider a few of Lipson's observations on the question of definition and policy:

(1) The term 'Mercantile System' is generally employed to indicate the economic activities of the State in the sixteenth, seventeenth and eighteenth centuries. (*Op. cit.*, p. 1.)

(2) Mercantilism denoted the pursuit of economic power in the sense of economic self-sufficiency (Do.)

(3) In its pursuit of economic self-sufficiency Mercantilism was the antithesis of Free Trade, which rests upon an international division of labour. (*Op. cit.*, p. 2.)

Lipson seems to have accepted too literally the warning that Mercantilism is not a 'definite, unified body of doctrine;' and lest he should be charged with having formulated too sharply on what was merely a 'tendency of thought and sentiment,' he goes to the other extreme of making it cover the economic practices and policies of 300 years. And, moreover, starting from the none-too-evident premise that 'economic self-sufficiency was the kernel of Mercantilism' (p. 2), he draws the easy inference that protection of industries was one of the burdens of Mercantilism and further that the 'principal method' of it 'was to discourage import.'

Now, whether Mercantilism had anything to do with the concept of economic self-sufficiency is itself open to question. Professor Heckscher denies any connection between the two on the ground that while the aim of economic self-sufficiency "is to limit or entirely abolish all trade relations with other communities," Mercantilism aimed at limiting the 'imports alone.' "Autarchical tendencies," he added, "were of practical importance really in one context alone . . . That was in the relations between the mother country and her colonies. According to the Old Colonial System these two were to supplement one another in such a way that everything possible should be procurable within the unit formed by the mother country and the colonies. But as long as the ultimate goal of mercantilism was to export as much as possible from this economic unit, it was still far removed from any

real aspiration towards autarchy. The efforts to produce military supplies within the country may be considered as a partial fulfilment of the idea of autarchy, for there was no desire to develop their export. But it would be quite wrong to say that they played any predominant part at all."[20]

It needs to be mentioned, however, that the question of the Colonial System does not, strictly speaking, arise. For, that marked the beginning of an entirely new era which, as will be shown hereafter, completely changed the complexion of tariff all over Europe, and with which Mercantilism as such, had no connection. Meanwhile the conclusion is that Lipson's chain of argument which may be put as follows:

Mercantilism→Economic self-sufficiency→Protection

is wrong, because it treats as contemporal two different commercial policies which characterised two successive periods of European history.

The actual historical sequence is that Mercantilism gradually gave way to a system of protection. It should, indeed, be conceptually possible to separate the two phenomena, although occasionally a commercial policy might have existed which was composite in aim and character.

With Mercantilism yielding to protectionism, tariff all over Europe eventually assumed a protectionist character, although it was quite otherwise in the beginning. This is best illustrated by the gradual change of complexion which British tariff underwent in course of time. Import duties were at first contemplated as good substitutes for sumptuary laws designed to limit private expenditure in the interest of the State and welfare of the people. An approval of this use of import duties is to be found in Petty who remarked "that all superfluities tending to luxury and sin, might be loaded with so much impost, as to serve instead of a Sumptuary Law to restrain the use of them."[21] Subsequently, customs duties on exports and imports began to be imposed purely for the sake of revenue, and tariff became a tool of public finance. But when active interference of the State began to be demanded by interested people in the sphere of foreign trade for the protection of national industries, the

[20] Hk. II. 130-31.

[21] *Treatise*, Vol. 2 (Hull), Ch. VI, p. 56. Italics are mine.

monarchical regulations naturally fell short of expectations, because the King would not impose heavy tariff lest it should diminish the volume of trade and affect the treasury. Hence ensued a conflict of interest between the Crown and Parliament—the latter backed by interested producing bodies—, and, indeed, it was not before the triumph of Parliament that tariff policy came to be wielded purely for protectionist purposes. The economic basis of constitutional monarchy is here clearly indicated.

Mercantilism, then, regarded the customs duties exclusively as a source of public revenue, seeking in the regulation of foreign trade, *not* the protection of home industries from foreign competition, but, most avowedly the influx of precious metals from abroad through a favourable balance of trade. Protectionism evolved only as a subsidiary and subsequent issue, although when it came, it at once occupied a dominant position in the economic policies of the nations. Mercantilism, as we have already remarked, gave way to a system of protection. We have here to reckon with two separate institutions which, appearing in an historical sequence, sought to regulate foreign trade for two different purposes.

This contention is supported by the fact that the theoretical background of protectionism was *not* set up by any of the celebrated Mercantilist writers.[22] So far as England is concerned, the protectionist controversy raged between two powerful interests within the country, the English woollen and silk manufacturers on the one hand, and the English East India Company and calico printers, on the other. Those who demanded it were thus protectionist merchants and manufacturers, and not Mercantilists advancing a doctrine of protectionism.

Important as it is, this essential distinction is very often overlooked. A strange instance of such blurring of distinction is to be found in Professor Thomas's book on *Mercantilism and the East India Trade*, of which a significant sub-title is 'An early phase of the Protection *v.* Free

[22] Those writers who did join the protectionist controversy, took quite the contrary view. Without being thoroughgoing traders both Sir Josiah Child and Charles Davenant thundered against the proposed restrictions of Indian trade, and, as true Mercantilists, pointed to the 'influx of treasure and general growth of wealth',—a result which they attributed to Indian commerce.

Trade Controversy.' Professor Thomas, defining Mercantilism, observes as follows:

> "The core of mercantilism is the strengthening of the State in material resources; it is the economic side of nationalism. The nation-state in its youthful enthusiasm sought to be powerful, and power was to be obtained by the growth of wealth in the country. Therefore the State protection of the material interests of the people was regarded as absolutely necessary. Schmoller hits the mark when he says that "state-making" is the innermost kernel of mercantilism. By state-making he means the creation of an economic community out of the political community. And this is what mercantilism proposed to do." (*op. cit.*, p. 3.)

This passage is characteristic of the general trend of thought and analysis which Professor Thomas pursues throughout his book. His standpoint is similar to—although not entirely identical with—the position taken up by Lipson, the chain of argument admitting of the following slightly different sequence:

Mercantilism→Economic nationalism→Protectionism

Professor Thomas, it would appear, takes his cue from Schmoller. Now, much is usually made of Schmoller's *obiter dicta* on Mercantilism. What he actually said is the following: "In its innermost kernel it is nothing but State making—not State making in a narrow sense, but state making and national economy making at the same time."[23] Those who, following Schmoller, take this wide view of Mercantilism (not distinguishing Mercantilism from the 'Mercantile System' on which Schmoller wrote),[24] seem to forget that while such a comprehensive connotation can be validly held—if at all—only against a panoramic background covering the whole period which

[23] *The Mercantile System* (Ed. Ashley), pp. 50-51.

[24] Schemoller may have written, not on the theoretical system known as Mercantilism but on the practical commercial policies referred to as comprising the Mercantile System. If so, there would have been extenuation for Professor Thomas in the following prefatory remark which he makes: "Towards the last quarter of the 17th century, the Mercantile System became increasingly protectionist in aim . . ." But he does not stick to the phrase 'mercantile system' and uses Mercantile System and Mercantilism as convertible terms.

witnessed the birth of modern Europe, emphasis in the present context and according to chronology, must have to be placed on the theory of the Balance of Trade, because the mercantilist pre-occupation with precious metals was hardly displaced until about the end of the seventeenth century. The fiscal precepts and principles of those days were mainly in support of the maintenance of a balance of exports over imports.

But neither Lipson nor Thomas seems to pay heed to this point of precision with regard to the question of definition. The result is that both make observations on Merçantilism, which can be only partially true. We append examples from Thomas:

ACCEPTABLE.	QUESTIONABLE.
The core of mercantilism is the strengthening of the State in material resources; ...	It is the economic side of nationalism. (*op. cit.* p. 3).
The nation-state in its youthful enthusiasm sought to be powerful.	Therefore the State protection of the material interests of the people was regarded as absolutely necessary.
...	(Do.)
The aim of Government was to regulate the course of trade in such way as to enrich the country.	And foster its industries (Do. p. 6).
The ideal before the Mercantilists was a wealthy and powerful nation, getting richer every year at the expense of other countries.	Mercantilist identifies the interests of the State with the interests of the producer.
...	(Do. p. 73)

It is not difficult to draw from these tendentious premises, as does Professor Thomas, the inference that

Protectionism was a 'phase' of mercantilism, 'initiated in the interests of home industries.'[25] Yet it is strange that he should have done so. For, in his brilliant survey of the protectionist controversy, Professor Thomas very clearly brings out how the demand for protection arose—quite independently of any theoretical advocacy or support (of which hardly any existed) from the Mercantilist writers—purely out of the discontent of the English woollen and silk manufacturers as a result of the extensive use of Indian textiles in England. Thus protectionism, far from being an intellectual issue raised and supported by Mercantilist 'philosophers,' was only an SOS broadcast by interested industrialists, some among whom wrote pamphlets, vigorously supporting the Mercantilist view of import restriction because they saw in that measure the end of their distress. Pamphlets such as these cannot be said to comprise the Mercantilist literature, and if this is granted, there is no case for identifying Mercantilism with Protectionism.

In one of the quotations from Professor Thomas, given above, there occurs the following sentence: "The nation-state in its youthful enthusiasm sought to be powerful, and power was to be obtained by the growth of *wealth* in the country."[26] In this description of the Mercantilist outlook, Professor Thomas, out of solicitude for the Mercantilists apparently uses the word 'wealth,' not in the sense of precious metals (with which, as he knows too well, the Mercantilists never confused wealth) but in the sense of real commodities. And with a 'plentiful encrease' of available commodities as the supposed Mercantilist object in view, he draws from it the facile inferences of 'economic nationalism' and 'protectionism.' But the solicitude, at least in the present context, is misplaced. For, the Mercantilists conceived the power of a nation-state purely in terms of 'riches' in the sense of precious metals. Not because there was any confusion regarding the nature and content of 'wealth,' but because in those days the abnormal needs of national revenue emphasised the importance of the accumulation of gold and silver, an idea which was strengthened by the imperishable and readily exchangeable character of these

[25] *Op. cit.*, p. 21.

[26] *Op. cit.*, p. 3. Italics are mine.

precious metals. Thomas Mun, for example, was in favour of a direct increase of the State treasury; and Petty also suggested diversion into the coffers of the State, and latterly, conversion into plate, of any excess money in circulation.[27] Money, in fact, was regarded as a political treasure to be kept within the boundaries of the nation, so that, whenever necessary, these metallic evidences of purchasing power could be diverted into the hands of the State for meeting an emergency. Nor was it overlooked that money was, in addition, an international power; for, in the event of a conflict between nations, a greater volume of money would represent a greater purchasing power of war and food materials in the world market.[28]

Thus the power of a nation-state was identified with the possession of a vast stock of precious metals, and it was with a view to that end that the Mercantilists fashioned their import and export duties. The tariff policy sought through the accumulation of treasure to protect a whole nation against the aggression of its rivals. It was the doctrine of political protectionism of a whole nation rather than the doctrine of economic protectionism of its select producers.

If the above analysis is correct, the conclusion is that Mercantilism favoured duties on exports and imports because they would serve as sources of public revenue.[29] It was not until Mercantilism was displaced by Protectionism that they began to be used for protecting home industries from foreign competition.

[27] See my article on *The Mercantilist View of Money in relation to Public Finance* published in Indian Journal of Economics, January, 1943, pp. 257—270.

[28] Whether this was a success as a practical policy is a different question altogether. Adam Smith thought it was not. He said, "It (the Mercantile System) seems not to have been . . favourable to the revenue of the Sovereign; so far, at least, as that revenue depends upon the duties of customs." And again, " . . . the Mercantile System taught us, in many cases, to employ taxation as an instrument, not of revenue, but on monopoly." (*Wealth of Nations,* Ed. Cannan, Modern Library Edition, p. 832.)

[29] This disposes of the criticism that the Mercantilists overlooked that the ultimate effect of an import surplus of precious metals would go against the intended favourable balance of trade.

SOME INVESTIGATIONS IN BANKING, CURRENCY AND PRICES

BY

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The sky rocketing of prices, the scarcity of almost every important household commodity, the unsatisfactory attempts of the authorities at price control, the impositions of mediaeval restrictions on the movement of goods and persons, the galloping note circulation, the famine of coins, specially of small coins, the reduction in the fineness of silver coins and the withdrawal of coins of standard fineness, even though of recent issue, all these have utterly bewildered the layman and have set the serious student thinking about banking, currency and money matters. The publications indispensable for the study of such matters are the Review of the Trade of India, the Report on Currency and Finance and the Statistical Tables Relating to Banks in India and Burma. Among the statistical publications of the Government of India, the first two have always been the most interesting reading; but their quality has improved materially since the first was taken under charge by the Economic Adviser to the Government of India, and the second and third by the Reserve Bank of India. Unfortunately, however, for the student of economic affairs the publication of the Review of the Trade of India is being deliberately delayed owing to political and military considerations; while the use of calendar year for the Banking Tables and financial year for the Currency Report is a source of much unnecessary worry and trouble for the research worker. Another important drawback in the Banking Tables is the fact that in the Summary Tables only year-end figures are given instead of the average of monthly figures, which would give somewhat less scope for window-dressing and would reveal the truer state of affairs during the year.

As early as 1932 when the banking figures published were much more meagre than they are to-day, I attempted a computation of the velocity of bank deposits with a

view to find out whether the economic depression of 1931 had resulted in a reduced velocity of bank deposits. For this purpose I took the private deposits of the Imperial Bank, the deposits in India and Burma of the Exchange Banks, the deposits of the Indian Joint-Stocks banks (A and B class), the deposits and loans of the Co-operative Banks (A and B class); and dividing the total of cheques cleared through the clearing houses by the total of deposits of the above classes of banks, found a crude velocity of 8 in 1928 as against 7 in 1931. A few years later I made a somewhat more elaborate calculation of the velocity of bank deposits for the year 1934. Realising that all deposits are not chequable deposits, I took only the current deposits of the Indian joint-stock banks. But as the summary tables lump together all the various classes of deposits—current, fixed and savings—, I worked up from figures of the individual banks and found that current deposits formed roughly 30 per cent of the total deposits of joint-stock banks in 1934. But the difficulty of working up the figures for the other three classes of banks was greater. I found, however, that figures of bank deposits, classified into fixed and current deposits, existed for the Bank of Bengal for the period 1915—19, and for the Bank of Madras for 1915—20, but none for the Bank of Bombay. On the basis of these figures I computed that 50 per cent of the total private deposits of the Imperial Bank may be assumed to be current deposits, and took the same percentage of the deposits in India and Burma of the Exchange Banks to represent current deposits. For the co-operative banks I took 10 per cent of the deposits from individuals and other sources of the Provincial Co-operative Banks at Calcutta, Bombay, Madras, Lahore and Rangoon, where clearing facilities existed, as their chequable deposits. On the above assumptions, I found the total of current deposits in 1934 to be Rs. 1,07,66 lakhs; and dividing by this figure the total of cheques cleared through the clearing houses in the same year, Rs. 17,08,39 lakhs, I got a crude velocity of 16 for the year 1934.

Since the institution of the Reserve Bank in 1935 and the publication of its annual reports, matters have been considerably clarified, and we are now on much firmer ground. Even now, however, the new classification into demand and time liabilities is not entirely satisfactory,

inasmuch as all demand liability (withdrawable on less than 30 days' notice) is not necessarily chequable deposits. Apart from this, two other difficulties in calculating velocity of bank deposits have to be faced. Firstly, some clearing houses, of which at present there are seventeen, were opened after 1935, such as those at Coimbatore, Calicut, Nagpur, Madura and Lucknow, and by including clearings at these places in computing velocity, comparability of the figures for later years with 1935 figures is somewhat impaired. I have, therefore, in working out velocity of sight deposits (demand liability), taken the clearing house statistics for only 8 of the most important centres, *viz.*, Calcutta, Bombay, Madras, Karachi, Rangoon, Cawnpore, Lahore, and Delhi, which formed 95 per cent of the total clearings in 1940. Secondly, though the Banking Tables give only the end of year figures of sight deposits for the scheduled banks, the Currency Report fortunately gives average figures for each year. Now taking the average annual sight deposits of the scheduled banks and the bank clearings at the eight centres, I have come to the following figures of velocity of bank deposits in India and Burma.

TABLE I

	Velocity of Sight Deposits.		Velocity of Sight Deposits.
1935-36	15·5	1938-39	15·2
1936-37	15·0	1939-40	16·6
1937-38	15·5	1940-41	13·1

The Reserve Bank authorities have themselves calculated the velocity of bank (sight) deposits in India (excluding Burma) for four years in their Currency Report for 1941-42 as follows:—

TABLE II

	Velocity of Sight Deposits.
1938-39	15·6
1939-40	16·7
1940-41	13·0
1941-42	12·7

It may be argued that a calculation of velocity based on the sight deposits of scheduled banks alone is not completely satisfactory, owing to the fact that all scheduled banks are not members of the clearing house (in 1941 six out of 43 Indian joint-stock banks were not members), while some non-scheduled banks (more than 25 joint-stock and co-operative banks) were either members or sub-members of the clearing houses in India. Fortunately, however, the last two annual Banking Tables issued by the Reserve Bank give a list of members and sub-members of clearing houses in India and Burma as on 31.12.40 and in India as on 31.5.42. As the number of clearing houses remained the same during the period 31.12.40 to 31.5.42, I have in calculating the velocity given below, taken the clearing house returns for all the seventeen centres and not for eight only as above. The method followed is to take the total deposits of all the clearing banks, whether scheduled or not (including the deposits and loans held at the end of the year from non-members and members in individual capacity of the co-operative banks), and then distributing the total thus arrived at between demand and time liabilities in the same proportion as the total of demand and time liabilities of the scheduled banks was distributed between these two categories. In this case, however, I had to content myself with only the year-end figures of deposits, because, as I have said before, the Banking Tables do not publish average annual figures. The results of this calculation, which relate to India and Burma, are set out below:—

TABLE III

	Velocity of Sight Deposits.
1940	12·1
1941	11·5

The velocity thus arrived at is what Lord Keynes would call crude velocity, which for Great Britain was calculated by him to be 46 in 1929 and for U.S.A. 25.57 in 1925. To arrive at what he calls absolute velocity of cash deposits, we must take note of the fact that all cheques drawn even upon clearing banks do not necessarily pass through the clearing house. Internal clearings between a bank's own customers, cheques paid in cash across the

counter and local clearings between banks where there is no official clearing house, have all to be taken note of. In India, paucity of statistics prevents us from making proper allowance for all these heads. I have, however, attempted to estimate the size of the correcting factor in an indirect manner. I have assumed that the cash in hand (excluding cash at banks) kept by a banker represents the average daily outgoing of the bank to meet its demand and time liabilities. The summary tables published in the Banking Tables do not distinguish between cash in hand and cash at banks, but lump the two together under the head 'cash balances.' I had therefore to compute the proportion of cash in hand to cash at banks from the figures of individual non-scheduled banks. For the scheduled banks, fortunately, the Currency Report gives separately the annual averages of cash in hand and balances with the Reserve Bank.

We may at this point make a slight digression from the main theme. The time liabilities of banks remain remarkably stable, varying over a period of six years (1935-36 to 1940-41) for the scheduled banks within 6 per cent of the average, and over a period of four years (1938—41) for the non-scheduled banks within 7 per cent of the average. The demand liabilities are, however, much more variable both for scheduled and non-scheduled banks, the corresponding figures being 21 per cent and 34 per cent respectively. Another remarkable thing is that while the percentage of cash and balances with the Reserve Bank to the total of demand and time liabilities has varied for the scheduled banks over a period of six years from 9.50 to 17.36, the proportion of cash alone to the demand liability has remained almost constant at 5 per cent, varying between 4·7 and 5·1, in spite of the great variations in the demand liability itself. We may also enquire here whether the statutory provision compelling scheduled banks to keep a reserve of 2 per cent of their time liabilities and 5 per cent of their demand liabilities with the Reserve Bank is based on banking experience or is copied, more or less arbitrarily, from other countries such as U.S.A., where member banks have to keep 3 per cent of their time liabilities and 7 to 13 per cent of their demand liabilities with the Federal Reserve Banks. I have examined the practice in this matter of non-scheduled banks in India, more than 600 in number, for which a consolidated account

is published in the Banking Tables. Assuming that they follow the practice of maintaining a cash balance of X per cent of demand liabilities and Y per cent of time liabilities, we get for four years four simultaneous equations in X and Y. Solving these by the method of least squares, we get an average proportion of 19 per cent for demand liabilities and 2.5 per cent for time liabilities. In this connection I may point out the opinion of Lord Keynes that for Great Britain the normal prescribed proportions of cash reserves to deposits should be 15 per cent of demand deposits and 3 per cent of time deposits. (*A Treatise on Money*, Vol. II, Page 77.)

Coming back to our main theme of cash in hand of the clearing banks, we shall carry on our investigations with reference to scheduled banks, which form by virtue of their resources an overwhelmingly important proportion of the clearing banks. Statistics of the annual average of cash in hand, demand liabilities and time liabilities are available for these banks in the Currency Report for the seven years 1935-36 to 1941-42. Assuming that they find it necessary to maintain cash in hand to the extent of X per cent of demand liabilities and Y per cent of time liabilities, we get seven sets of equations in X and Y for the seven years. Solving them by the method of least squares we get an average value of 4 per cent for demand and 1 per cent for time liabilities. Now if it can be reasonably assumed that the daily cash outgoing of the scheduled (and hence generally of the clearing) banks, so far as their demand liabilities are concerned, is 4 per cent of the demand deposits, then there being about 300 working days in the year, the annual cash turnover is about 12 times the demand liabilities. The position reached then is this: that a certain amount of demand deposits existing at any time in the banks, it is gradually drawn upon by cheques; part of which is cleared through the clearing houses and part of these cheques is paid across the counter. Now the first category of cheques drawn in the course of the year, we have seen before, formed (in 1940-41) about 12 times the demand deposits existing at any time; while the total amount of the second category of cheques drawn in the course of a year formed another 12 times the demand deposits existing at any time. Altogether therefore a certain amount of demand deposits gives rise to 24 times its size of cheque transactions in the course of a year, or,

in other words, the velocity of circulation of demand deposits is 24. This, however, takes no account of internal clearings between a bank's own customers, or cheques cleared through any unofficial clearing arrangement that may exist anywhere in the country. We may therefore take 25 to represent roughly the absolute velocity of bank cash deposits in India as against 63 in Great Britain in 1928 calculated by Lord Keynes.

What about the cash in hand of the non-scheduled banks? To find this out I had to examine individually the position of more than 200 banks with paid-up capital and reserves of less than 5 lakhs of rupees for each of the years 1940 and 1941. As a result of this investigation I found that the proportions between cash in hand and cash at banks were as follows:—

TABLE IV

	Cash in hand	Cash at banks
1940	100	120
1941	100	112

Assuming that the cash in hand maintained against time liabilities is 1 per cent of them, we find that the cash in hand maintained against demand liabilities was 9 per cent of such liabilities in each of the years 1940 and 1941 for the non-scheduled banks. As the vast majority of these banks have no access to clearing house facilities, the absolute velocity of non-scheduled banks' cash deposits works out at about 27 for the year. This roughly tallies with what we have found out for scheduled banks. It is only natural that non-scheduled banks should keep a higher proportion of cash in hand than the scheduled banks, as owing to the absence of compulsory reserves maintained by them with the Central Bank, the proportion of their cash at banks is less; and also because owing to lack of clearing facilities and lack of economy in cash, they have to meet most of the cheques drawn against demand liabilities in cash across the counter.

The velocity of time deposits on the basis of 1 per cent cash in hand maintained against them, works out at 3 for the year. I have worked out the velocity of a similar class of deposits, namely, the Post Office Savings Bank deposits, by working out the proportion between the

opening balance at the beginning of the year and the amount of withdrawals during the year, with the following results:—

TABLE V

Yaer	Velocity of P. O. Savings Bank Deposits.	Year	Velocity of P. O. Savings Bank Deposits.
1935-36 ...	·67	1939-40 ...	·55
1936-37 ...	·56	1940-41 ..	·58
1937-38 ...	·53	1941-42 ...	·50
1938-39 ...	·54	...	...

Having now examined the velocity of bank deposits, let us turn to the velocity of legal tender money. In a way we have already tackled the problem when we reached a velocity of 27 for the demand liabilities of the non-scheduled banks. Let us see if we can find a verification of this by approaching the problem from a different angle. Do the changes in the velocity of legal tender money follow closely the changes in the velocity of bank demand deposits? It may be thought that an index of the rapidity with which money passes from hand to hand may be provided by the variations in the volume of balances which the scheduled banks maintain with the Reserve Bank in excess of the statutory minimum reserve. I have constructed an index of such velocity by dividing the total of demand and time liabilities of the scheduled banks by the excess balance maintained by them with the Reserve Bank with the following results:—

TABLE VI

	Index of Velocity		Index of Velocity
1935-36	9·1	1939-40	29·3
1936-37	7·3	1940-41	10·3
1937-38	15·5	1941-42	12·7*
1938-39	32·6		

(*excluding Burma)

If we compare the above table with Table I, we find that the magnitude of variations is different and even the the directions of the variations in 1938-39 and 1939-40 do not tally. Which then is the more reliable index of velocity of legal tender money?

Let us apply another test. It appears probable that the life of currency notes which is calculated year after year in the Currency Reports may provide an index of the rapidity with which notes at least, if not coins, pass from hand to hand. The Currency Report of 1941-42, however, gives the warning that though the figures published give a fairly correct idea of the life of notes over a range of years, yet from year to year they are apt to be vitiated by abnormal expansion or contraction of currency. To obviate this difficulty as far as possible, I multiplied the life of the note of a particular denomination by a fraction of which the numerator was the total circulation in the previous year of notes of the same denomination, and the denominator the notes of the same denomination in circulation in the current year to which its life refers. Four denominations of notes were taken for the purpose (Rs. 5, Rs. 10, Rs. 100, Rs. 1000) which among themselves covered about 98 per cent of the total note circulation. Weighted average, the weights depending on the proportion which notes of a particular denomination formed of the total note circulation, of the life of the currency notes (excluding notes in currency chests) was thus arrived at. An index of velocity of circulation of notes was constructed by dividing 12 months by the life in months of notes in each year and the results tabulated below:—

TABLE VII

Year.	Life of notes in months.	Index of velocity.
1935-36	7·3	1·6
1936-37	6·6	1·8
1937-38	7·1	1·7
1938-39	7·9	1·5
1939-40	9·3	1·3
1940-41	17·3	0·7
1941-42	23·5	0·5

The defect of taking the life of the currency notes as an indication of their velocity of circulation also arises from the fact that if thinner paper is used in printing (as in 1934-35 with five and ten-rupee notes), its life is shortened, which will also result if the same notes are re-issued (as the five- and ten-rupee notes in 1932-33). This index differs remarkably from the index given in Table VI or the one in Table I. The diminution of velocity to one-third in the course of the last four years is hardly believable.

Finally I have tried to estimate the velocity of money with the help of Fisher's famous quantity equation. For this purpose we require to know the quantity of money in circulation (M), clearing house returns (M′V′) as a measure of credit transactions, price level (P), and the total weighted physical volume of transactions (T). Now Prof. Mahalanobis recently made an estimate of rupee circulation, giving figures for individual years down to the year 1940, based on rupee census; and the results were published in the Currency Report of 1940-41. I have used this estimate for my purpose. Clearing house figures are easily available in Currency Reports and Banking Tables; but as these are given for the calendar year, I had to make slight adjustments to fit them to the financial year to which my calculations refer. For price level I have taken the Calcutta Index with July 1914=100. For the volume of transactions I have taken the "Capital" Index of Indian Industrial Activity. I may be permitted to add here that I was first in the field in constructing an index of business activity for India covering the years 1932-33 to 1936—37, and published it in the *Indian Journal of Economics* in 1937, expressing the hope "that some financial paper in India will take up the matter and keep up its publication." Early in 1938 the "*Capital*" of Calcutta took it up with acknowledgment to the present author, and has since then been continuing it. The statistics on which I have estimated the velocity of money are given below:—

TABLE VIII

Year.	Rupees in circulation Mahalanobis's estimate. (In crores of rupees).	Total notes issued (average for the year) (in crores of rupees).	Notes and coins held in the banking dept. of the Reserve Bank (in crores of rupees.)	Total money in circulation cols. 2+3−4 (in crores of rupees.)	Clearing House Returns (in crores of rupees).	Index of Price Level July 1914=100.	"Capital" Index of Indian Industrial Activity 1935=100
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1935-36	158	192	28	322	1856	91	100·7
1936-37	166	202	26	342	1947	93	105·0
1937-38	173	212	26	359	2069	102	111·5
1938-39	131	211	28	314	1997	96	111·1
1940-41	125+2*	228	19	336	2353	115	114·0
1941-42	105+4*	259+5**	17	356	2188	119	117·3

* Small coins

** One rupee notes

To solve the quantity equations $(MV+M'V'=PT)$ for values of the the velocity of money (V) we have to get rid of the constant (K) by which the right-hand side of the equation has to be multiplied, as instead of using actual price and quantity of transactions, we are using only indices of these quantities. The equations can, therefore, only be solved by making another assumption. The assumption that I have made is that the velocity of money circulation in 1935-36 is either actually equal to or as nearly equal to that for 1936-37 as possible (in fact 109V of 1935-36 was taken as equal to 100V of 1936-37). Of course, I ruled out the cases of velocity of money being negative or less than unity. On these assumptions a solution of the equations gives the following velocities of money in circulation:—

TABLE IX

	Velocity of Money.		Velocity of Money.
1935-36	22	1938-39	28
1936-37	24	1939-40	32
1937-38	26	1940-41	33

The average velocity for the six years works out at 27 which tallies with what we found before working from the cash in hand of non-scheduled banks. The value of the constant (K) by which we multiplied the right-hand side of the equations works out at one, which implies that the quantity of monetary and credit transactions in the country was of magnitude of something like ten thousand

crores of rupees in 1940-41. Estimates for later years are made difficult by the lack of an authoritative estimate of the quantity of money in circulation after 1940; and by the introduction of one-rupee Government notes for which no statistics are published anywhere. In my calculation I have made no allowance for the circulation of the small coins as no reliable estimates of their circulation are available. The average annual absorption of small coins during 20 years (1919-20 to 1938-39) was roughly one-twelfth of the combined annual absorption of notes and rupees. If we want we may easily make adjustments for small coins which will only correspondingly reduce the velocity of circulation. For the last two years, however, viz., 1939-40 and 1940-41 I have added 2 and 4 crores respectively of small coins to the rupee circulation, as there was an unprecedented absorption of small coins during the period. If we compare this estimate of the velocity of circulation of money with the two indices given in Tables VI and VII, or with the velocity of bank demand deposits in Table I, we find remarkable differences. The continuous increase in velocity indicated in Table VIII is in direct contradiction to the opinion expressed by the Reserve Bank in the Currency Report of 1941-42 to the effect that during the period 1938-39 to 1941-42 the activity of bank deposits fell by 20 per cent and that "the fall in the activity of note circulation was even larger." Our calculations are based on so many estimated and uncertain factors that it is impossible to express an opinion with any degree of assurance as to how far they approach the real conditions.

I shall now try to estimate the velocity of money circulation for the year 1941-42 in a somewhat indirect manner. During the two and a half years of war (September 1939 to March 1942) the total absorption of currency was as follows:—

Notes..............................	Rs. 231 crores	
Rupees.........	Rs. 60 crores	(including one rupee notes)
Small coins..............	Rs. 12 crores	
Total	Rs. 303 crores.	

But if we take the three financial years of war (1939-40 to 1941-42), the total absorption is found to be somewhat less viz., Rs. 283 crores. Of these, Rs. 50 crores was rupee coins, including one-rupee notes. I estimate that out of these 50 crores, one-rupee notes formed about 7 to 8 crores, though, in my opinion, the total of one-rupee notes

circulating in the country by the end of March 1942 could not have been greater than 18 crores. I assume that all the silver rupee coins absorbed during the period 1939-40 to 1941-42 were hoarded. We are thus left with an active increase of about Rs. 240 crores of currency during this period, which had to support, together with the credit media, the increase in the volume of transactions (increased from 111.1 in 1938-39 to 122.7 in 1941-42 according to Capital's index) between 1938-39 and 1941-42 at a price raised in the proportion of 147: 96. Making the necessary calculations, I find that this gives a velocity of 28 for the money in circulation in 1941-42, the same as that for 1938-39 arrived at before. This supports the contention of the Reserve Bank to the extent that, if not in 1940-41, at least in 1941-42, the velocity of money circulation had decreased. The decrease in the velocity of money and bank deposits in 1941-42 proves that the notion usually held that in times of rising prices the velocity of money increases is not invariably true.

The way in which the note circulation (excluding one-rupee notes), the demand liabilities of scheduled banks, the wholesale price level, the cost of living index, the industrial profits (of about 300 companies), and the prices of the variable yield securities have moved during the war years, compared with the pre-war year, is brought out by the following table:—

TABLE X

(Base 1938—39=100)

	1938—39	1939—40	1940—41	1941—42
Average Note Circulation Rs. (crores)	174	198	228	288
Indices ...	100	114	131	166
Average Demand Liabilities of Scheduled Banks Rs. (crores) ...	124	133	156	202
Indices ...	100	107	126	163
Price Level (wholesale) ...	100	121	125	155
Cost of Living Index (Bombay) ...	100	102	102	121
Indices of Variable Yield Securities	100	107	112	128
Indices of Industrial Profits ...	100*	118*	165*	...

* Refers to Calendar year.

It is interesting to note here that in the course of the four years 1938-1941, the total deposits of the various classes of banks increased very disproportionately, as indicated in the table below:—

TABLE XI

		Percentage change in 1941 as compared with 1938.
1.	Exchange Banks...	+59
2.	Imperial Bank of India	+34
3.	Other Scheduled Banks	+40
4.	Non-scheduled Banks	+34
5.	Co-operative Banks	+8
6.	Post Office Savings Deposits, Cash Certificates, Defence Saving Certificates and Defence Savings Bank Deposits ...	−27

The table above shows that the smallest increase has been in the case of the co-operative banks; while in the case of postal deposits, etc., there has been a very considerable diminution. This points to the conclusion that either the poorer sections of the community who deal mainly with co-operative and postal savings banks, have not profited much by the rise of prices and increased employment during the years of war, or that hoarding of money due to nervousness has been mainly confined to the poorer sections of the community. Possibly both are partially true.

In order to study in greater details the connection between note circulation, bank deposits and movements of prices, let us turn to the table given by the Reserve Bank in the Currency Report of 1941-42:—

TABLE XII

Quarterly Indices of Average Monthly Note Circulation (N), Sight Deposits of Commercial Banks (D), wholesale Prices (P) Bombay Cost of Living (C)

(July 1939=100)

	1939		1940				1941				1942
	III	IV	I	II	III	IV	I	II	III	IV	I
N	102	122	132	135	131	128	138	149	151	169	207
D	101	103	105	106	114	125	129	136	149	166	159*
P	105	129	125	117	116	121	120	131	150	154	154
C	100	105	107	106	108	109	112	116	123	121	130

* Excludes Burma.

I have worked out the coefficients of correlation between note circulation and wholesale prices, and between sight deposits and wholesale prices, and they were found to be ·85 and ·84 respectively. The correlation between note circulation and sight deposits is ·84. Excepting for the first six months of the declaration of war, when there was a considerable speculative rise in prices unsupported by the currency situation, price movements have tended to lag behind currency movements. The increase in demand deposits has been less than in note circulation but greater than in wholesale prices. In view, however, of the various factors on which the price level depends, the correlation between note circulation and prices appears to be remarkable. If we compare the movements of the wholesale prices with the movements of the cost of living, we find that the latter has lagged behind the former. This is usually the case and has been further aggravated by the policy of price control introduced since the outbreak of the war. It may be mentioned, however, that the rise in the cost of living since the outbreak of the war has been greater in India than in any other Empire country except U. K.

The question is often asked: Are we heading for an inflation? The question is difficult to answer as everyone is not agreed as to what inflation really means. Let us examine the facts of the situation. Budget deficit is a strong inflationary influence; and except for the year 1939-40, there have been deficits in all the successive years amounting to Rs. 59 crores for the three years 1940-41 to 1942-43 as shown below:—

	Rs. (crores)
1940-41 (accounts)	6·53
1941-42 (revised estimate)	17·27
1942-43 (estimate)	35·07
	58·87

Another factor having inflationary effect is the stupendous sums of money which are being placed at the credit of the Government of India in England as the British Government's share in Indian Defence Services and Supplies. This has made repatriation of much of the Indian sterling loan possible; and the amount of sterling loan outstanding on March 31, 1942, is less than the sterling

securities held by the Reserve Bank on the same date. The amounts thus made available in England are shown below:—

	Rs. (crores)
1939-40	17
1940-41	43
1941-42	200
1942-43	400
	660

Still a third factor tending to produce the same effect is the mounting trade balance in favour of India. Publication of the figures of trade in bullion was discontinued after 1939-40, possibly as a political measure. The favourable balance of trade in private merchandise for India and Burma, on a pre-separation basis, during the three war years has been an average of Rs. 87 crores a year against an average of Rs. 44 crores a year for the quinquennium ending 1938-39, as the figures given below indicate:—

	Rs. (crores)
1939-40	77
1940-41	69
1941-42	115
	261

As against these powerful inflationary forces what have we to set down on the deflationary side? The increase in the Funded Debt of India, Treasury Bills of the Government of India, Post Office Savings Bank Deposits, Cash Certificates and Defence Saving Certificates, amounts to Rs. 232 crores during the three war years, 1939-40 to 1941-42. But against this we have to set down the decrease in sterling debt amounting in the same period to Rs. 289 crores. It would thus appear that the total debt of India has decreased rather than increased during this period. No doubt the volume of production in the country, particularly the production of war materials, has increased considerably since the outbreak of war. It is difficult

to measure the extent of the increase in the volume of production and trade; and Capital's index of Indian industrial activity, though it may not show the full effects of the increase in the production of war materials, yet gives a rough idea of the increase of productive activity in the community. According to this index industrial activity in India has increased from 111·1 in 1938-39 to 122·7 in 1941-42, i.e., by 10 per cent. Thus the balance is certainly heavily in favour of price inflation. The note circulation has been increasing with increasing momentum as is shown in the following table:—

TABLE XIII

	Notes in circulation Rs. (crores)	Indices
End of Sept. 1939	202·91	100
,, ,, 1940	229·15	113
,, ,, 1941	286·12	142
,, ,, 1942	492·59	243

The situation is even more serious than the figures reveal, inasmuch as with Burma in enemy hands, the figures of note circulation in 1942 refer to India alone, though the figures for the earlier years are combined figures for India and Burma. At the time of writing (October 30, 1942) the note circulation has gone up to Rs. 514·70 crores, i.e., during the last seven months (April to October) note circulation has increased at the average rate of Rs. 15 crores per month; and it may be anticipated that by the end of the present financial year the note circulation will have touched Rs. 600 crores as compared with Rs. 190 crores in March 1939 and a wholesale price index (on the basis of a correlation of ·85) of 220 against 100 in August 1939. As against this we may note that in the last war the average note circulation increased only by about Rs. 100 crores in a period of 6 years covering the war and the post-war boom. An uneasy factor in the situation is the mystery enshrouding the circulation of one-rupee notes about which the Government give the public no information in the form of published statistics. No doubt as against the enormous increase of note circulation, it may be urged that much of the notes issued simply replaces the

metallic coins which are being rapidly hoarded. But if we accept Prof. Mahalanobis's estimate of the rupee circulation in 1940 at Rs. 105 crores, we shall find that the scope for hoarding is not unlimited. Further a check to hoarding has already been applied by reducing the silver content of the rupee coin. The standard silver coins are being recalled and deprived of their legal tender quality; and should these coins come out of the hoards, they would cause the prices to rise still further. Just at present, however, this chance is rather remote; as with the rising price of silver bullion it may soon be more profitable to melt the standard silver coins than return them to the mint. Rise of prices during a period of prolonged war is unavoidable, as I have tried to show in my paper on "Price Policy in Wartime;" but to prevent a runaway price level one would expect the Government to balance its budget; failing which, to follow a vigorous loan policy. During the last war the rise in the price level in India was moderated by allowing the exchange rate to vary: but during the present war the Government has so far been following the policy of maintaining the exchange constant at 1s. 6d. to a rupee.

CO-ORDINATION AND CONTROL OF BANKING IN MYSORE

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There is an intimate connection between the Banking system and the economic life as a whole, and as intimate an association between it and the monetary mechanism. It is this duality of significance which gives rise both to the practical and the theoretical problems of banking.

The primary functions of the banking system involve:—

(i) The provision of part of the ordinary circulating medium in the form of bank notes, which power of note issue at present is usually concentrated in the hands of institutions generally known as Central Banks. Such institutions are regarded as being placed in a peculiarly privileged position and are expected to function in certain specific ways. The Reserve Bank of India occupies such a position in British India.

(ii) The provision of facilities to the public for the custody of monies. The excess of income over expenditure at any given time results in a current balance which if small can be easily held in the form of coins and notes as cash balance. Larger balances involve the problem of safeguarding even in the case of individuals. It becomes intolerable in the case of large firms, public bodies and even of the State. It is therefore a matter of great convenience that there should be institutions prepared to receive the current balances of individuals, firms, corporations, public bodies and the State.

(iii) The provision of facilities for the transfer of such balances from one party to another.

(iv) The provision of facilities as a depository for permanent savings, which form the basis of the capital resources of the community.

(v) Acting as part of the investment agencies of the community. The banker advances the funds entrusted to his care to those who will pay for the accommodation. The pattern of such investment operations differs from country to country due to differences in the economic structure and economic circumstances. Each pattern, however, represents a mixture of tradition, of judgment and of prudence. Yet, in all cases, the distribution of banking assets is closely associated with one of the main problems of banking, *viz.*, the problem of liquidity. What proportion of a banker's liabilities should be at all times covered by cash assets or by non-cash liquid assets is in part a matter of tradition based upon experience (as in England), while in India under Section 42 of the Reserve Bank Act, which applies to the Scheduled Banks and Section 277 L of the Indian Companies (Amendment) Act of, 1936, which applies to Banking Companies in general *minimum* cash reserves (which usually may be less than those actually held) are statutorily prescribed. The Mysore Companies Act of 1938 follows the Indian Act in this respect.

This problem of cash ratio to deposits assumes an importance all its own when we consider the subject of "Creation of credit by banks." In less advanced countries in which borrowers take up the proceeds of their loans or discounts *in cash* the effect is simply the substitution of a non-cash for a cash asset. With the expansion of economic activities and the growth of the banking habit the advantages of leaving the borrowed money with the banker to be drawn as and when necessary by means of cheques, will convert the borrowed amount into a deposit. Thus the first effect of granting an additional loan is simply to swell the deposits as a whole whilst leaving the total volume of cash unaffected, but adding to the non-cash assets an amount equal to the total of the loan. This is the truth

embodied in the slogan "loans make deposits." An extension of the lending operations by the banks adds to the purchasing power of the community irrespective of the volume of current savings. It is natural that banks prompted by the profit motive are anxious to lend and invest as far as their resources permit, subject to the limits of safety dictated by considerations of liquidity. One of the important considerations to which the banks must pay attention is therefore the amount they possess of cash and of other assets which can easily be turned into cash.

The proportions of the bank assets between the interest bearing securities and the idle cash are always varying and the periodical expansion of credit by banks due to changes which may be taking place in the business world will permanently change the proportions into which the bank assets are divided. Besides, there is another positive influence in an advanced economic community nowadays accustomed to a highly organised banking system. The financial operations of the modern state have a close bearing upon the business of the community and through the banking system influence the credit resources. The Government business is the largest single business in every advanced modern state. The raising of the normal revenues by way of various kinds of taxes and fees, the borrowing operation to finance emergency expenditure undertaken by it or to balance deficit budgets, or as normal ways and means transactions, and the expenditure of huge sums thus raised through the various spending departments of the state, make such operations and the banking system interdependent.

In any advanced community because of the almost universal demand for the accommodation which banking affords, and because of the tremendous power that is inherent in the control of loanable funds and because of the close reaction of these upon the general economic welfare and the operations of the Government, the banking business has always been regarded as quasi-public in its nature. The maintenance of a balanced relation between the financial operations of the business community and those of the state and an even tenor in the tempo of business demand the regulation of banking, currency and credit. Such responsibility is usually entrusted to a Central Bank which through the several devices at its command has the responsibility of maintaining in the general interest of the

community, the stability—both internal and external—of the national monetary unit. A central bank undertakes monetary regulation, and regulates the banking activities, controls credit and co-operates with the other central banks. Presuming a banking system with disciplined membership, the policy of the Central Bank will be appreciated by the constituents of the system as highly beneficial for mutual safety. The banking system if it is to function efficiently, discharging its varied responsibilities to the community, should be organic, co-ordinated, regulated and controlled.

"In no advanced country in the world are banking facilities so inadequate as in India."[1] The Central Banking Enquiry Committee stressed the necessity for a central banking institution in India for securing the development of Indian banking and credit system on a sound and proper basis. That body considered it to be a matter of supreme importance from the point of view of the development of banking facilities in India, and of her economic advancement generally that a Central or Reserve Bank should be created at the earliest possible date. "The establishment of such a bank" they stated, "would by the mobilisation of the banking and currency reserves of India, on the one hand tend to increase the volume of credit available for trade, industry and agriculture and to mitigate the evils of fluctuating and high charges for the use of such credit caused by seasonal stringency."[2]

The establishment of the Reserve Bank in 1935 marks the culmination of a long period of development. The Statute governing it represents a compromise and leaves many things desired. It is also not difficult to find fault with the bank's policy during the few years of its existence. But there is no denying the fact India has at present an equipment of the mechanism for the control of currency and credit on the lines approved of by modern experience elsewhere. A great deal of the future will, however, depend not merely on the regulation and control provided by legislation but by the traditions and conventions which the banking system will set up by making use of the opportunity thus provided.

[1] Banerjee, *A Study of Indian Economics*, p. 180.

[2] *Report*, p. 417.

The development and distribution of banking in India has been described as being haphazard and irregular. This is explained by the general avoidance of Indian State areas by responsible British Indian Banks. "British Indian banks are loth to place their interests under the protection of Native Princes."[3] The difficulties connected with the legal, judicial and administrative problems affecting banking on account of the different jurisdictions may lend some justification to such a view. An enterprising banker conscious of the historical accidents conditioning the political evolution of our vast country, would strive to get over such difficulties while in search for new fields for expansion of business. In fact in recent years, there have been indications of such enterprise even though the political environment continues unchanged.

The Indian States, however, have identified themselves to a greater extent by surrendering many of their rights—a few involving financial sacrifice—in the interests of wider economic unity. "In the process of the economic unification of India which progressed so rapidly after the assumption of paramountcy by the Crown, many states abolished the separate currencies which they had formerly possessed. In most cases the abolition was final . . . It is thus a fact that at the present time the currency needs of India are almost entirely met by the notes and coins issued by the Government of India."[4] Under Article 12 of the Mysore Treaty[5] the coins of the Government of India are declared to be legal tender in Mysore and separate coinage of the Mysore State shall not be revived. Under the Mysore Paper Currency Act of 1919 as amended in 1938-39, currency notes issued under the Indian Paper Currency Act and under the Reserve Bank Act of 1934 shall be legal tender in Mysore so long as they are legal tender in British India. The Government of India earned a net income of Rs. 324 lakhs in 1941-42 as a result of the transfer of the currency profits by the Reserve Bank. So long as the coins and currency of British India freely circulate in Mysore, her claim for a share of such profits is irresistible but the Government of India have not conceded such a claim. Mysore identified herself with this and other all-India

[3] Muranjan, *Modern Banking in India*, p. 32.

[4] *Indian States Enquiry (Financial) Report*, 1932, para. 407.

[5] *Mysore State Papers*, Vol. I, p. 58.

activities "so that its subjects might participate fully in the benefits arising from the central administration of these great public services."[6] Yet, the fact is that "the States occupy a position of subordinate isolation without means of guiding or even of effectively influencing policy at the Head Quarters of the Government of India in regard to money matters in which they have a very direct and material interest."[7]

It was expected that the establishment of the Reserve Bank would usher in a new era of greater economic unity between the two Indias. But the Act applies only to British India. "Unless the States are also included within the zone of its operation, the Bank will fail of its purpose. As British Indian money is legal tender throughout India, the bank will not be in a position to maintain stability of the monetary system unless it is in a position to regulate the volume of currency and credit for the whole of India. Factors leading to a greater or smaller absorption of currency or credit by the States such as the financial operations of the States' Governments, changes in the hoarding or banking habits of the States people and princes, changes in the methods of private and public economy in the States, a greater or smaller resort to the use of local currency in such States as Hyderabad, Travancore and so on are likely to affect the powers of control of the Reserve Bank over the country's monetary system. Unless the Banks in the States whether having a branch in British India or not are also included among the Scheduled banks and brought under control, . . . there will not be that amount of unity or policy in the regulation of currency and credit which may be necessary for the Central Bank to secure monetary stability."[8] Various legal difficulties are apprehended as the Act is very defective in its references to and distinction between "India" and "British India." Modifications of the Act to overcome the present defects and to extend the operations of the Bank so as to bring within its scope, the banking systems working within the States and the financial operations of the State Governments cannot long be deferred in the interests of the structural unity of the

[6] *Indian States Enquiry (Financial) Report*, 1932, para. 29.

[7] *Indian States Enquiry (Financial) Report*, 1932, para. 32.

[8] A. Ramiah, *Reserve Bank Act*, 1934, p. 6.

Indian banking system. It is hoped that under a Federal Government, the States also would have the opportunity of exercising their due share of influence. That was the reason why the States' Enquiry Committee of 1932 were unable to recommend the acceptance of any claim for the distribution of the currency profits among the prospective federating units, inasmuch as "coinage and currency" is a prospective Federal subject.[9]

The problem of co-ordination and control of banking in Mysore has to be viewed, therefore, from a twofold point of view—(1) as an all-India problem; and (2) as a regional problem with special responsibilities to the Mysore State. A brief account of the position at present of banking and finance in the state is a necessary prelude to proper appreciation of both aspects of the problem.

As in other parts of India, organised banking in Mysore State is of recent growth. The sowkars or the individual moneylenders happened to be the mainstay for the supply of the capital and credit needs of the community. These play an important part even now in the financing of trade and agriculture. There was no interference with the freedom of contract until 1923 in which year the Usurious Loans Act provided some relief to the debtors by empowering the courts to re-open the transaction and relieving the debtor of all liability in respect of excessive interest. This Act was defective in so far as the definition of usuary, i.e., what constitutes excessive rate of interest, was left to the discretion of the court concerned. These defects have been overcome in the Moneylender's Act of 1939. This Act provides for the registration and licensing of moneylenders who are obliged to maintain proper accounts, give receipts and furnish statements of accounts whenever demanded. The maximum rates of interest for decrees passed by courts are specified. Penalties are laid down for the infringement of the provisions of the Act as also for molestation which is made a cognisable offence. The control exercised in this manner has greatly relieved the strain and the severity of the usurious practices of the moneylenders of former days. According to the census of 1941 there were 1250 persons in the State having moneylending as their principal means of livelihood.

[9] *Indian States Enquiry (Financial) Report*, 1932, para. 408.

The indigenous bankers form a separate class by themselves. These are mostly Multanies and Marwaries. It is difficult to estimate their operations as no reliable statistics are available. Some of them deal in bullion also. They are concentrated in important trading centres in the State. Hundee business forms part of their dealings. "Although the financial aid rendered by the Multani and other outside banking firms enabled the local merchants to export their produce at rates much cheaper than they would have obtained without such aid, the profits accruing from their business were too small to ensure any rapid increase in the material wealth of the State and the heavy rates of interest charged by these moneylenders made it hardly possible for the merchants to carry on a profitable business."[10]

The importance of the indigenous bankers even now in the internal trade of the country is a factor to reckon with. Recently an Association among these has been formed, registered under the Mysore Scientific and Charitable Societies Act, intended to promote support or oppose legislative or other measures affecting banking, trade, etc., and to elect representatives of the Association to serve on public bodies like Legislative Council, Representative Assembly, etc.[11] This Association was registered in December 1940, after the enactment in July 1939 of the Mysore Moneylenders Act.

The members of the group of indigenous bankers do not appear to have established any enduring contact with any of the Joint-Stock Banks coming within the jurisdiction of the Mysore Law. Their dealings so far as their relations with the Joint-Stock Banks are concerned appear to be confined to the branch of the Imperial Bank which is located in Bangalore Civil and Military Station, outside the jurisdiction of the State. The branch of the Central Bank of India in Bangalore City within the jurisdiction of the State, opened a couple of years ago, may have acquired a portion of their business.

The coffee planters, both Indian and European, to some extent depend upon the exporting coastal firms such

[10] *Handbook of Commercial Information for Mysore; Department of Industries and Commerce*, 1941, p. 47.

[11] *Report on the working of the Joint-Stock Companies in Mysore for 1941*, p. 34.

as Aspinwall & Co., Ltd., Pierce, Leslie & Co., Ltd., Volkort Bros, etc., for their working capital. Advances are made by these firms on the mortgage of the crop, the amount depending upon the estimate of the probable yield and price of the crop. The advance is made in instalments as and when required. Often the financing firm undertakes the agency work for the purchase and supply of the requirements of cultivation. The entire saleable crop is to be delivered to the mortgagee firm. Information is not available relating to the extent of such operations. The service, though quite convenient and efficient, proves to be very costly and there is always a desire, at any rate among the Indian planters, to keep away from such firms. To the small planter such an arrangement is altogether out of the question.

Joint-stock banks organised on modern lines have spread in Mysore during the past quarter of a century. Mysore is comparatively the foremost among the few Indian States with such banking facilities. Twenty-two places command the services of organised banking institutions. All the District Headquarters, cities and towns are endowed with some bank or branch of a bank. Judged by the population standard, all the seven places which have a population of 20,000 and more have banking facilities, while of the ten towns with a population between 10 and 20 thousand, 7 had banking offices in them. The remaining seven places where branches of banks exist have a population less than 10,000.

The number of Joint-Stock Companies, according to the return for the year 1941,[12] registered as banking Companies in Mysore was 49, of which only 6 were organised modern banks. The rest were all mere loan offices. Only three of these six had a paid-up share capital of Rs. 1,00,000 and above. The aggregate of the paid-up capital of these three was Rs. 29,50,000 out of a total paid-up capital of Rs. 40,90,000 of all the banking companies registered in Mysore. There is no special Banking Law in Mysore. The Mysore Companies Consolidation and Amendment Act of 1938 follows closely the lines of the Indian Companies Amendment Act of 1936 in providing for the regulation of Banking Companies under Sections 277F to 277N.

[12] *Report of the Registrar of Joint-Stock Companies.*

The chief Joint-Stock bank serving the State is the Bank of Mysore, Ltd., which was started in 1913, with the active patronage and support of the Government. With its Head Office in Bangalore City, it has 22 branches serving 20 different places. Its capital and Reserves amount to Rs. 47 lakhs and its deposits amount to Rs. 3·86 crores. The Bank acts as Bankers to the Government of His Highness the Maharaja of Mysore. A small portion of the Treasury work has been entrusted to the Head Office. It has been closely controlled by the Government in its administrative capacity by the imposition of some cautionary limits to business in addition to the statutory control under the Company Law. The bank cannot undertake foreign exchange business. The publication of the weekly statement of affairs in the *Mysore Government Gazette* is insisted upon. Generally all advice tendered by the Government in regard to the management and to the employment of funds is respected. The books of the bank are always open to Government audit and scrutiny.

The Bank's policy has been to subserve its primary aim as a commercial bank. It is through commercial banks that industry, trade and commerce, the professions and the general public usually come into contact with the machinery of finance in its capacity on the one hand as lenders to the banks and on the other as borrowers from them. Though it is common to stress the lending aspect of a bank, its function as a borrower is equally important. The modern world is accustomed to use the banking system not only for purposes of borrowing and the depositing of idle funds but also for making payments by means of cheques. The Bank of Mysore may justly claim to have popularised not only the use of cheques in the State but also to have laid the firm foundation for making banking on sound lines appreciated by the wider public in the interests of the general economic welfare.

Right from its inception, the Bank of Mysore has bestowed thought on the important question of branch banking. To-day all important trade centres within the State are served by a branch of the bank. "The purpose of branch banking is mainly to assist in the geographical distribution of risk and to draw deposits from as wide an area as possible, besides advertising in a persuasive, and practical way the good effects of honest and honourable banking as against the evils inseparable from moneylend-

ing with which people are so familiar." Besides, branch banking which involves growth of size brings with it economy in resources, increased safety, economy in expenses and profitability. Branches, however, are at present confined to the limits of the State. It has been suggested that the branches of the bank may be opened in Presidency Capitals like Bombay and Madras outside the State. Perhaps the Management may be of the view that the advantages of a move like that may not be conclusively advantageous and profitable particularly on account of the intense competition in such places. It may after all be prudent to expand and consolidate within the State rather than venture on a scheme of expansion brimming with doubtful possibilities.

Ranked as one of the big seven Indian banks, today the Bank of Mysore is perfectly sound in every respect. Its growth of thrift deposits happens to have attracted notice as a remarkable feature.[13] Its investments happen to conform also to the latest banking thought, which has changed the emphasis from "liquidity" to "shiftibility."[14] It has through its pioneering work and development of a strong regional character within the state acquired a valuable goodwill. Conservative traditional banking principles and rules of practice have guided the conduct of business. Unwarranted departures would mean, in the view of the management, "not only harm to the permanent interests of the bank but also entail a deviation from the straight policy with which banking is so prominently connected in the public mind all the world over."[15]

[13] Muranjan, *Modern Banking in India*, p. 217.

[14] *Commission of Enquiry into Banking, Currency and Credit in Ireland*, 1938, p. 161.

[15] *Silver Jubilee Souvenir of the Bank of Mysore*, p. 15.

COMPARATIVE POSITION OF THE BANK OF MYSORE, LTD.

	No. of Banks.	No. of Branches.	P. C. of Capital and Reserve : total Liabilities.	P. C. of Deposits to total Liabilities.	P. C. of cash in hand and money at call and short notice to total Liabilities.	P. C. of Investments to total Liabilities.	P. C. of discounts and advances to total Liabilities.	Year to which the figures relate.
1. Joint Stock Banks of England and Wales (excepting Bank of England) ...	13	8626	4·0	92·8	18·1	28·3	48·4	1941
2. Australian Banks[5]	11	3371	14·2	79·7	13·4	22·5	59·8	,,
3. Canadian Banks*	5	2177	6·7	87·5	21·1	40·4	33·0	,,
4. Indian Banks with Branches in London*	4	106	7·7	86·3	19·7	39·4	34·1	,,
5. Imperial Bank of India	1	360	12·0	87·9	9·7	47·1	41·3	1938
6. "The Big Five" Indian Banks** ...	5	163	8·1	91·5	13·0	40·8	44·2	,,
7. Bank of Mysore	1	22	7·0	87·2	20·9	34·5	43·0	1942

* The *Economist*, Banking Supplement, Sept. 19, 1942.
** Bank of India, Central Bank of India, The Punjab National Bank, The Allahabad Bank and the Bank of Baroda.

In recent years branches of a few joint-stock banks incorporated in British India have been opened in parts of the State. Chief among these are the Indian Bank of Madras, the Central Bank of India, Bombay and the Canara Bank of Mangalore. That ill-fated Travancore and Quilon Bank through its couple of branches in the State also attracted considerable attention during the period of its short-lived existence.

Deliberate avoidance of Indian State territories by even the more prosperous among Indian Joint-Stock Banks was attributed as a cause of the irregular and haphazard development of such institutions. Yet in recent years the stress of competition among them and the search for new fields for expansion of business have manifested themselves in a spirit of enterprise in spite of the legal, judicial and administrative complications involved in subjecting themselves to the jurisdiction of the States. So far, however, as Mysore State is concerned the great industrial and commercial expansions of the recent decades has offered great opportunities for extension of Banking business. Separate statistics relating to the business in Mysore of this group of banks not being available, it is very difficult to estimate the nature and extent of their business. It is surmised that generally these branches serve as "feeders" —the deposits attracted by them being far in excess of their local investments. If this be so, does it mean that Mysore is in a position to "export capital" in this manner? Such questions have been forced to the forefronts as a result of the activities of banks registered outside the State.

There is no doubt that in recent years the people of Mysore are better bank-minded. These outside banks must have their due share of credit for such expansion of banking. It is also true that as a result of competition banking service is becoming cheaper and more efficient. But at the same time it must be recognised that under the existing law in Mysore, there is no means of ascertaining, much less controlling, the investment operations of these outside banks to safeguard the interests of the local depositors. "The tying up of local deposits to the extent of nearly 30 lakhs (as stated) in one of the outside Banks, which is now under liquidation, lends practical importance to this particular aspect and seems to indicate that some kind of suitable restriction on the operations of

these outside banks is required in the interests of the numerous innocent depositors."[16]

Insistence on a local Board of Directors, closer state supervision through a higher class of officials and through recognised governmental Auditors, periodical authoritative publicity of the extent and details of the operations of the bank within the State, and finally insistence upon the investment of a prescribed percentage of their local deposits within the State and a part of it at least in Mysore Government Securities,—have been suggested as remedial measures to ensure the safety of local interests. Statutory enforcement if found necessary should not be shirked in the larger interests of sound banking development within the State.

A branch of the Imperial Bank of India has been functioning in the State since a long time. Its position is somewhat peculiar as it is located in the Civil and Military Station of Bangalore. This tract of land, about 14 square miles in extent, has been assigned "free of charge to the exclusive management of the British Government" and His Highness the Maharaja of Mysore has renounced "the exercise of all jurisdiction in the lands so assigned."[17] This arrangement necessitated by the Military requirement has been responsible for a certain clash of interest in the economic sphere. The growth of population and business in this "integral part of the Mysore State" (Reply of Lord Reading to the address presented by the Municipality of Assigned Tract—1923), has not fully benefited the people of the State on account of this "foreign jurisdiction." Business units established here, while enjoying all the 'conjuctural' advantages of Mysore State, have escaped the reciprocal obligations.

The old Bank of Madras opened a branch in this area of Bangalore on account of the pressure and inducement of the Military and the European civil population of the place. Since then it has enjoyed the Government patronage and concessions. The Mysore Government also have large dealings with it. The financial transactions between the Mysore Durbar and the Government of India are adjusted through this branch. The cash balance of

[16] *Mysore Bank Silver Jubilee Souvenir*, p. 141.

[17] *Memorandum of Assignment*, 1881—Mysore State Papers, Vol. I, p. 54.

the Dewan of Mysore with this branch on 30th June, 1941, was Rs. 133·64 lakhs (Revenue and Finance Accounts 1940-41—p. 208). "Many of the Industrial concerns in the State have been financed by this Bank."[18] Recently, a Pay Office has been opened in the city area. Without forming an organic part of the Banking system of Mysore, this institution has been fully exploiting the business prosperity of the State thus proving to be a serious competitor with the institutions coming directly within the jurisdiction of the State authority.

On a smaller scale the co-operative organisation within the State has been attempting to meet the financial and banking needs of the state. The co-operative societies registered under the Mysore Law total 1956 of which 52 are Land Mortgage Banks and Societies, 1939 are agricultural, and 329 are non-agricultural credit Societies. The working capital of these groups of societies is as follows:—

	Rs. in lakhs.
Land Mortgage	14·93
Agricultural Credit	50·34
Non-Agricultural Credit	136·90.

The urban co-operative banks working in the cities and a few of the chief towns are well organised and of great help to the official class and the petty traders. Their deposits are large and almost all of them have marshalled their own resources to be able to meet the increasing demand for accommodation without seeking the aid of higher financing institutions. Their influence in the spread of the habits of thrift and banking is not inconsiderable. In Bangalore City the Joint-Stock banks feel that the powerful co-operative banks happen to be a source of competition in the matter of deposits. These urban banks have gained and held the confidence of the investing public, and have been striving to establish a position of increasing importance and influence in the financial world.

Agricultural finance has not developed as well as one would desire. Agricultural co-operative credit has not touched even the fringe of the problem. The development of agricultural credit is closely connected with the problem

[18] *Handbook of Commercial Information for Mysore*, 1941, p. 49.

of efficiently marshalling the national resources for the economic betterment of the ryot. No solution of the banking problem can be deemed to be complete without due attention being given to the problem of linking agricultural credit with the higher financing organisation of the State.

No account of banking in Mysore is complete without reference to the Post Office Savings Banks and the important rôle of the Mysore Government in the provision of various kinds of banking facilities. The Post Office in Mysore which is a part of the Government of India organisation has arranged for savings bank work in more than 100 places. The details are not ascertainable as no separate data relating to their operations within the state are published. As in other parts of India these accept both call and time deposits. To the small depositor these are very serviceable. The money order system facilitates the transfer of small sums from place to place at a comparatively heavy charge.

The Government of Mysore through their District and Taluk Treasuries—about 80 in number—undertake various banking functions. The oldest of the functions happens to relate to savings bank work. The balance at credit of the savings bank account as on 30th June, 1941, amounted to Rs. 209·49 lakhs. The Government does not hold any specific reserve against these deposits, which are regarded as part of the unfunded debt of the state. In recent years these operations have been extended by the introduction of five-year deposits and cash certificates. These have proved to be quite popular, the balance under the two accounts on 1st July, 1941, being Rs. 152·21 lakhs. Remittance facilities have also been created by the introduction of the Treasury cash orders. The Government Insurance schemes—official and public—collect huge sums every year. The balance at credit under this head amounted to Rs. 238·41 lakhs on 1st July, 1941. Besides, the Government loan and ways and means operations have their influence on the banking system generally.

Lastly, it is necessary to refer to the different schemes initiated by the Government for financing agriculture, trade, and industry. The several Departments of the State undertake such functions. The takkavi, fruit culture, land improvement, sericulture, and coffee loans, hire purchase loans for installing electric pumps and machinery, loans to cottage and large-scale industries to co-

operative societies are a few of the objects for which financial aid is extended. To the Government employees, advances for house-building or purchase, and the purchase of motor cars and bicycles are also given. These amounted to a total of nearly 60 lakhs on 30th June, 1941.

These different units which constitute the banking and financial basis of the State happen to be independent of one another. Each, working in its own way, has attained a certain measure of success. The intimate connection between the banking system and economic life of the community demands the efficient marshalling of the credit resources of the community by consolidating the different units and by their proper integration and co-ordination. Control wherever found to be necessary must be exercised unhesitatingly. It is only such an attitude that will ensure an organic development of banking in the State.

Mysore can justly claim the premier position in regard to her industrial advancement by an imposing record of industries. She has not so far bestowed adequate attention to a serviceable and efficient organisation of capital and credit by proper banking regulation. Mysore missed a chance to investigate this problem in 1930 when the Central Banking Enquiry Committee offered facilities to the Indian States also to associate themselves with their enquiry, by not availing herself of that opportunity. Occasionally, however, Departmental investigations have been undertaken in connection with specific questions. A comprehensive enquiry involving a thorough investigation of the diverse problems relating to finance, capital, banking and credit is an urgent need if an organic system is to be evolved. Such an enquiry should examine the problem of banking and finance from both its regional and its all-India aspects.

As an all-India problem, the banking system in Mysore offers no direct connection with the all-India banking system. The Bank of Mysore is the only institution that has developed well and which has a distinct regional character. It is not one of the scheduled banks, although in the list of scheduled banks appended to the Reserve Bank Act, the name of the Bank of Mysore also was included. The Reserve Bank Act excludes the co-operative societies registered in the Indian States from its perview. The outside Joint-Stock banks working in

Mysore have only a business interest in the state. The Government of Mysore have not in any manner established contact with the Reserve Bank. Their loan operations have been all independently managed. Thus while the desire to link ourselves up with the all-India banking system, is there, it has not so far manifested itself in any definite, tangible and practical manner. Banking in Mysore is isolated and too much localised.

In its regional aspect the system demands much overhauling. The overlapping of functions among the different units could be avoided by division of responsibilities. The position of the Bank of Mysore in relation to the Government of Mysore should be more clearly defined. The remittance transactions of the Government of Mysore with the Bank of Mysore, (who are allowed the privilege and the honour of styling themselves as "the Bankers to the Government of His Highness the Maharaja of Mysore,") during the year 1940-41, amounted to a total of Rs. 120·97 lakhs, while those with the branch of the Imperial Bank it amounted to a total of Rs. 586·83 lakhs. The cash balance of the Government on 30th June, 1941, with the two institutions amounted to Rs. 47·20 lakhs and Rs. 133·64 lakhs respectively.[19] Thus an outside bank attracts greater business from Mysore Government than the premier regional institution.

Control over the banks established outside the State but doing business within the State should be exercised on the lines already indicated. Under the recent Mysore Insurance Act (of 1939) a great deal of safety has been secured for the Mysore State Policy-holders without stifling the activities of companies which are not incorporated under Mysore Law. Similar safeguards may be thought of in the sphere of banking also.

The Treasury in Mysore has been compelled to undertake various functions which may be considered strictly to belong to the sphere of private initiative. The result has been a rapid growth in the operations of the Treasury. But the resources commanded by the State have not been made automatically available to the benefit of the economic needs of the community. The Bank of Mysore also has not been made full use of for relieving or sharing to a greater extent the work of the Treasury. The Treasury

[19] *Finance and Revenue Accounts*, 1940-41, p. 204 and p. 268.

by the very nature of its business methods cannot prove to be quite efficient. A desire for prompt and businesslike disposal of the work, consideration and courtesy to customers and that ardent aspiration to acquire a goodwill and thus expand business, are rare traits among its personnel.

Mysore in spite of her industrial progress continues to be a predominantly agricultural tract. The general economic improvement is therefore closely linked with the raising of the standard of living of the ryot. Financing of agricultural operations and the relief of the present heavy indebtedness are also aspects which a total view of banking involves. The linking of agricultural finance—through the numerous moneylenders in the interior and the co-operative societies re-organised on more enduring and useful lines—with the national banking system is the problem that should engage attention when banking reform in Mysore is contemplated. The systematic improvement and development of agriculture, including better marketing facilities, depend upon an abundant supply of capital. It is only by a careful and rational use of our resources that a lasting solution of our national economic problem could be approached. The apex institution of the co-operative structure should be organically linked with the organised banking structure of the state. Such a contact is needed not only from the point of view of supply of cheap and abundant capital, but also to ensure more businesslike methods among Co-operative Societies.

On what lines could we organise the banking system? The State may no doubt be prepared to undertake legislation even on the lines suggested by the recent draft bill issued by the Reserve Bank and according to local needs and circumstances. In addition, control and co-ordination to be effective should be undertaken by a premier banking institution endowed with statutory powers. Banks incorporated outside Mysore are ruled out of account for such a purpose. There is only the Bank of Mysore sufficiently well organised and developed that could be thought of for such a purpose. That institution has unfortunately not developed on lines which will enable it to shoulder such a wider responsibility. It has been too hide-bound and traditional in its policy. It has let slip opportunities for expansion of business and allowed powerful rivals to establish themselves within its domain.

Mysore industries have not benefited from it in any striking manner. Its too regional a development has deprived her of contact with outside centres of industry and trade. Caring more for safety and profit, it has followed scrupulously the policy of a shareholder's bank. Its contribution during the period of nearly thirty years' existence to the study of the problems of Mysore trade and industry has not come to the notice of the public. Even in respect of trained managerial staff, it has been continuously dependent upon outside talent.

These remarks are not meant in the least to belittle the solid achievement of the bank. As at present working, it is not quite well equipped to shoulder responsibilities of a higher kind involving the regulation and control of the banking system. The only agency that could shoulder such a task is the financial department of the Government. As it is the Treasury has been discharging various banking functions. The financial department has its Public Debt section to manage the loans of the Government. Direct Financial assistance to agriculture, to industry and to its employees has been a feature of the Government policy. The Government insurance schemes assure a steady inflow of resources. Backed up by statutory authority, there is no banking unit that could be considered too powerful that cannot be effectively controlled by the Department. Such direction would ensure a most beneficial arrangement of regulation of finance and capital to the various national economic activities.

If the responsibility for the regional regulation should devolve on a Department of Government it is best that a separate institution—a State Bank—is constituted subject to the guidance of the Government. A State Bank of this type while continuing all the financing and banking activities at present shouldered by the Government, can regulate savings, commercial, industrial and mortgage banking business through the different units of the system. The capital may be provided either entirely by the State; or may be subscribed by the public, the State guaranteeing the repayment of the capital and a fixed return on the share capital. The shareholders will not have a voice in the management and their position will be similar to that of bond-holders. The management may be provided by the permanent officers of the Government or may be

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entrusted to a statutory Board to be nominated for specific terms by the Government.

In order to cope with the many-sided expansion of economic activity of the State, as well as to improve the resources available and its most efficient utilisation, and most important of all to co-ordinate, conserve and control the resources of the various financial banking and credit agencies, including those of the Government, such an institution is a necessity. A move like that besides ensuring a powerful organised chain of credit for supplying all the needs of the different economic enterprises in the state will also be the agency to link up the local financial and banking system with the controlled credit policy of the Reserve Bank.

In such manner only can it be hoped to find a solution to the problem of co-ordination and control of banking in Mysore from both its points of view, as an all-India problem and as a regional problem with special responsibilities to the State. An undertaking like that would be one more step in the pursuit of the policy of State Socialism in Mysore,[20] and would conform to the standard consistently aimed at by Mysore. In the memorable words of His Highness the late Maharaja of Mysore, "We in Mysore form, as it were, a nation within a nation. While co-operating both with the Indian Government and the Indian public in measures which lead to the prosperity of India as a whole, we in our local sphere are doing our best to promote economic growth to the extent permitted by our resources."[21]

[20] The Government in Mysore have the largest capital investment in business in the State as indicated in the following table:—

	Number of companies.	Paid up share capital. Rs.		
I. Joint Stock companies incorporated in Mysore ...	187	...	3,35,98,090	
Incorporated outside but doing business entirely or mainly in Mysore—				
outside Mysore (but in India)	4	42,15,938	...	
,, ,, (outside India)	16	2,77,88,147	3,20,04,085	
			6,56,02,175	23·2%
II. Working capital of co-operative societies ...	...	...	2,71,77,271	9·6%
III. Capital invested by Government in Industrial and other business concerns ...	...		18,97,14,000	67·2%
			28,24,93,446	100%

[21] Quoted by P. H. Krishna Rao, *Industry in Mysore*, p. 24.

NOTES AND MEMORANDA

Banking Reform in India

The amended Indian Companies Act of 1936 reveals the policy of the Central Government incorporating provisions for better regulation of Banking Companies in India. A special Bank Act, in the opinion of the Government, was not an "immediate prospect" and so the adoption of such a course. The Indian Companies Act of 1936 was a distinct step towards the progress of banking regulation in India. But the failure in 1938 of the Travancore National and Quilon Bank which had numerous branches all over Southern India and even extended its operations to Northern India roused uneasiness as to the soundness of the smaller banks. The Reserve Bank of India, submitted in November 1939 to the Government, a scheme containing certain proposals to guide and control Joint-stock banking in India. These proposals were submitted in the form of a draft Bank Act.

The draft Bill defines banking in the following words: "banking means the accepting of deposits on current accounts or otherwise subject to withdrawal by cheque."[1] This is a simple definition of banking and banking companies as it meets the difficulty of including in a definition of banking those smaller institutions which refuse to comply with statutory provisions of the Indian Companies Act and yet describe themselves as banks. As a minimum amount of capital is essential for the successful operation of banking, the proposal of the Reserve Bank that banks with inadequate resources should not be allowed to open up branches in the larger towns is a distinct improvement because inefficient, under-capitalised and ill-organised banks constitute a serious menace to the progress of banking on sound lines.

To ensure an adequate capital structure, the draft Bill makes the following proposals: a banking company must have to start with a minimum paid-up capital of Rs. 1 lakhs but a minimum paid-up capital of Rs. 5 lakhs

[1] Clause 2(a) of the Draft Bank Act.

if it does business either at Bombay or Calcutta and that a minimum paid-up capital of Rs. 2 lakhs if it does business at places with a population of one lakhs. Moreover, a bank possessing a paid-up capital and reserve less than Rs. 20 lakhs will not be allowed to operate outside the limits of its state or province.

The proposal that the subscribed capital of a bank should not be less than 50% of the authorised capital and the paid-up capital should not be less than 50% of the subscribed capital definitely stops the scandal of issuing prospectuses with a very large authorised capital and then commencing business irrespective of the amount subscribed or paid-up.

One restriction placed on bank investments is that 30% of their demand and time liabilities shall be held in the form of cash or unencumbered securities. This is made to prevent overtrading thereby safeguarding the interest of the depositors. In the case of banks incorporated outside British India, they are to maintain 75% of their British Indian liabilities in the form of assets in British India. British Indian depositors are thus protected against banks incorporated outside India. The experience of banking crisis in 1938 has led the Reserve Bank to suggest important provisions for simplifying the liquidation proceedings so that during a bank failure, the depositors may be paid off with the minimum delay.

One object of the draft Bill is to maintain liquidity of funds by the banks by immediate conversion of a certain percentage of their assets into cash.

These, in brief, are the main proposals of the Reserve Bank. It will be seen that the objective behind these proposals is admittedly limited. Even as such, they invite certain criticisms.

The minimum paid-up capital required for the floatation and working of a bank should make it impossible for unduly small institutions to operate. No doubt; but the minimum should be determined with reference to the stage of banking development in relation to the economic structure of the country. It should be neither low enough to encourage wild floatations nor large enough to discourage the existing banks to develop or make it impossible for new ventures. The soundness of a bank does not depend upon the amount of capital alone. So the minimum

paid-up capital of Rs. 50,000 laid down by the Indian Companies Act may not be "too low." It depends.

Moreover, an undue importance has been given by the provisions requiring a higher amount of capital in the case of banks having offices in more than one province because it over-emphasises the administrative boundaries rather than the economic relationship existing between the adjacent provinces or states. The division into administrative boundaries should not be carried to the extreme because that will hamper the healthy and elastic growth of trade, commerce and industry. Once liquidity of funds is ensured, capital requirements should not be pitched so high as to force the banks to go out of existence.

Another provision of the proposed Act, namely, fixing by law the maintenance of 30% of deposit liabilities in cash and Government securities may be something revolutionary in banking legislation. But a mere keeping of 30% of deposit liabilities in liquid form alone will not save a bank from trouble if the remaining 70% is invested or locked up in dubious securities. This 30% of deposit liabilities is to be kept to protect the depositors but this is without any foundation as it may on the contrary create a false sense of security where none in fact may exist. If on account of false rumours there are sudden withdrawals must the bank refuse to pay its depositors and convert a mild run into a panic? Legislation which is likely to jeopardise the growth and development of honest banking should therefore be avoided.

Again, so long the Reserve Bank by the third schedule of the Reserve Bank Act of 1934, empowers the Imperial Bank to act as its sole agent, no scheduled bank is likely to get a chance of acting as agent for Government and local authorities. It is difficult to appreciate why strong and solvent scheduled banks should not be given the right to handle the postal savings bank deposits thereby reducing the huge cost of running the department. In the U.S.A. postal savings deposits are kept in the Federal Reserve Banks or member banks where there are such banks. Banks receiving postal deposits should ofcourse furnish ample security for such deposits.

Again, since Sec. 55(1) (A) of the Reserve Bank Act extends the provisions relating to Scheduled Banks to persons and firms, not being scheduled, operating in British India in the business of banking, there should be

no differentiation in the matter of maintaining cash reserves.

The shroffs may also act as the agent of the Central Bank specially in those areas where there is absence of banks. These shroffs are at an advantage because under the present conditions banks in India cannot hope to get into sufficiently close touch with the affairs of the vast trading community all over the country so that they are at present unable to grant accommodation directly to more than a few of the bigger traders. The shroffs are, therefore, indispensible middlemen. Unless the shroffs and the indigenous bankers of the city be brought within the ambit of the modern banking system and induced to use modern credit instruments, no real banking co-ordination will be achieved. The modernisation of agricultural operations is a condition precedent for the provision of an adequate system of finance. The Reserve Bank of India maintains an Agricultural Credit Department thereby admitting the necessity of co-ordination between commercial and agricultural credit. This co-ordination is only possible, by evolving rural credit instruments acceptable for discount. We will deal with it a little later.

Bank failures caused since 1913-14 and specially the crisis in South India in 1938 it is said, created uneasiness and therefore nervousness among bank depositors as regards the position of other local banks. Bank failures cause shock to public confidence and a setback to habits of investment injuring the industrial and commercial development in the country.

But bank failures did not demonstrate the incapacity of Indians to conduct the modern banking system. Such failures have been a common feature even in U.S.A. and England. These failures only emphasise the necessity of meeting the risks of crisis by improving the machinery of banking by a cautious selection of Directors, Auditors and the General Staff. The bank failures demonstrated the necessity for the establishment of a real Central Bank to guide the general banking policy of the country during a crisis and to steer it in normal times. The Reserve Bank has failed to remove this defect of the banking system. The South-Indian banking crisis amply demonstrated this and revealed the desirability of the scheduled banks to maintain a closer touch with the Central Bank. The Central Bank should in such times of crisis make adequate

advances to deserving and approved institutions without delay. But there is a difficulty in making such advances, as there is absence of a sufficient quantity of rediscountable assets with them. The banks in India can rediscount only the Treasury Bills with the Reserve Bank and Sec. 17 of the Reserve Bank Act has been so far a dead letter. So the banks hitherto derived no benefit from the Reserve Bank.

Bank failures emphasise the making of suitable provisions for institutnig a course of thorough practical training for Bank apprentices. Wide publicity is equally important to enlist intelligent public sympathy and supervision on the management of the banks. A sense of responsibility to the public may be ensured if there are representatives of depositors to the bank.

The definition of banking as given in Clause 2(a) of the draft Bill is open to improvement. It omits to make any provision for the indigenous banks, shroffs and moneylenders to facilitate their absorption into the banking system of the country. A bank may receive deposits but it must also lend money and capital and in the modern sense the true purpose of banking is to supply credit in some form or other. The moneylenders and most of the indigenous banks and shroffs do not receive deposits and withdrawals against deposits are in cash and not by cheques. The moneylenders, shroffs and indigenous banks, thus come in the picture because they represent more than 90% of the whole of banking and credit machinery of India. But they are outside the system of high finance. Indigenous banks are mostly confined to towns and loan offices supply very little credit to the agriculturist except very indirectly so that the bulk of it is supplied by the mahajan and co-operative banks. The co-operative credit touches, as yet, only a fringe of the huge problem of rural indebtedness. So far as agricultural credit is concerned, the rural moneylenders do business with their own funds thereby escaping any possibility of control by the Central Bank. But, rural credit is the most important form of credit in India today both from the point of view of total volume and of requirements and that over 70% of the people are interested in it. The problem of co-ordination of the existing rural credit agencies may be a very difficult problem as is proved by the inability of the Bengal Banking Enquiry Committee to make any positive suggestion of

such a co-ordination. If a Central Bank works independently of rural finance, its utility will be restricted to a microscopic section of the entire population. Banking rationalisation in such circumstances will lose much of its importance as the economic structure of the country will rest on insecure foundations as the majority of the people will still be under an oppressive credit system. An underlying cause of the essential instability of the credit structure in the country is provided by the instability of the basic source of the country's wealth, namely, agriculture.

The co-operative system acts as an agency for the supply of short-term credit to the agriculturist. Since the resources of these societies are meagre, they should be supplemented by bringing the entire co-operative system within the ambit of Central Banking.

But apart from granting certain overdraft facilities mostly against Government paper to some Provincial Co-operative Banks, the Imperial Bank of India, as the sole agent of the Reserve Bank, has not yet touched the problem of agricultural credit. The facilities that are granted by the Imperial Bank of India and the Scheduled Banks are either of cash credit against produce or discounting of bills to approved commission agents. Any benefit from the bank accrues to the commission agents so that the lot of the agriculturist remains as miserable as before. The Reserve Bank of India thus does not adequately recognise the necessity for financial accommodation to co-operative banks as it fails to issue emergency loans against approved co-operative paper in a stringent money market.

The co-operative movement has, as we already know, touched only a fringe of the problem of agricultural finance so that the moneylender still happens to be the friend of the agriculturist for unproductive debts. Unproductive debts represent a phase of social pathology, so that the additional resources need to be supplied for a better and more generous provision of credit facilities.

Agricultural produce has been brought within the ambit of the U.S.A. banking system. The experience of the U.S.A. may provide useful guidance for reorganising agricultural credit in India. If such a scheme is to be adopted, then the Provincial Governments may have to undertake legislation on lines of the Federal Farm Loans Act in America. Land Mortgage Banks, hitherto almost unknown to the Indian Banking System, should be

established to advance loans to the agriculturist. These land banks should be under Government control and the capital should be initially subscribed by the Government. The funds, if necessary, should be obtained by issuing tax-free debentures under conditions specified by Government. The provincial Land banks may operate through a Central Agricultural Loans Board which will directly be under the Central Bank.

The Indian money market has its own peculiarities and difficulties, the greatest of which is the absence of a documentary Bill market and Licensed Warehouses. Licensed Warehousing system is a necessary part of the development of banking particularly in an agricultural country like India.

To mobilise effectively the capital resources of the country and to create any kind of unitary control over its credit organisation, the indigenous banking system must be brought in organic relationship with the Central Bank of the country.

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Inequalities

The study of the distribution of incomes has been engaging the attention of economists and statisticians for nearly four decades now, and various systems of economic planning have been suggested to realise 'social justice' by lowering higher incomes and raising the lower ones. Several attempts have been made to reduce to precision the concept of 'inequality of incomes' and to obtain a satisfactory index thereof. But some amount of confusion and controversy still seems to cling to the idea of inequalities, as elaborately reviewed by Bresciani-Turroni in a recent article in the *Econometrica*.[1]

Pareto was the first economist who stressed the necessity of the definition of inequality of incomes and conceiv-

[1] Annual Survey of Statistical Data: Pareto's Law and the Index of Inequality of Incomes: *Econometrica*, Vol. 7, No. 2, 1939.

ed the idea of measuring it. He stated explicitly the traditional doctrine that inequality diminishes as the number of the rich increases comparatively to that of the poor. In precise terms, if N_x is the number of individuals with incomes x or more, Pareto enunciated that as N_x/N_h increases, the inequality diminishes, h being the absolutely lowest income and x the lowest income of the richer class, so that $h<x$. He gave the equations of the income curve:

$$(1)\ N_x = Ax^{-\alpha};$$

$$(2)\ N_x = A(x+a)^{-\alpha};\quad (\alpha>1)$$

with two and three constants respectively, as the working basis for calculating a measure of inequality.

Using the first equation, we have

$$N_x/N_h = (h/x)^{\alpha},$$

which shows that the inequality increases as α increases. On this perfectly logical consequence of Pareto's assumptions, Bowley, Pigou and Dalton raised doubts of various degrees, arguing from their own *á priori* notions of inequality of incomes. If the definition of inequality be varied so that it is declared that the distribution of incomes will be more uneven, the greater the ration of the average income of the richer group to that of the whole group, the tables are turned and the inequality increases as α diminishes, a conclusion which is the opposite of Pareto's. Again from Pareto's second law,

$$N_x/N_h = (h+a)^{\alpha}/(x+a)^{\alpha}$$

increases as a increases, α and h being kept constant. If the total income of those who get above the mean income be compared with the absolute total income it will be found that the ratio increases with a. If inequality be defined to diminish with the diminution in this ratio, in other words the lesser the percentage of total wealth absorbed by the richer class the lesser the inequality, then the inequality will increase as a increases, h and α remaining constant as before, whereas according to Pareto's definition, the inequality must diminish as a increases.

In 1920 Dr. Hugh Dalton elucidated certain points of principle and method in connection with the problem of

the measurement of the inequalities of incomes. He defined the inequality as the ratio,[2]

$$\frac{\text{Total economic welfare under equal distribution}}{\text{Total economic welfare under given distribution}} = \frac{W_e}{W_g} \text{ say,}$$

and proceeded to measure inequality in terms of income, assuming a functional relation between welfare and income. The axioms of economic welfare implicitly assumed were:

(1) that the economic welfare of different persons is additive,

(2) that the relation of incomes to economic welfare is the same for all members of the population, and

(3) that for each individual, marginal economic welfare diminishes as income increases.[2]

The first axiom implies the commutative law of addition, so that if A and B exchange their incomes, the total welfare of both is unaltered. This is contradictory to reality unless A and B belong to a joint family and have identical temperaments and interests. Thus axiom (1) has a limited application.

The second axiom implies that humanity behaves uniformly with respect to the stimulus of total income.

In regard to the third axiom we have to remark that the rate at which marginal economic welfare diminishes for the same income-level varies from person to person.

For the three axioms to hold with some degree of approximation, one has to postulate a symmetric population in which the individuals have more or less identical capacities, psychological reactions, ambitions and so forth. For a symmetric population, Purkiss's theorem[3] on the maximum value of symmetric functions becomes applicable, and the proposition that maximum economic welfare

[2] H. Dalton, Measuremetn of the Inequality of Incomes, *The Journal of the Royal Economic Society*, Vol. XXX, 1920.

[3] Purkiss's Theorem is as follows:

If $\phi(x, y, z, \ldots)$, $f(x, y, z, \ldots)$ be symmetric functions of $x, y, z, \ldots$, and if $x, y, z, \ldots$ be subject to the relation $f(x, y, z, \ldots) = 0$.

then $\phi(x, y, z, \ldots)$ has in general a turning value when $x = y = z = \ldots$, provided these conditions be not inconsistent with the given relation.

occurs when all incomes are equal, holds even when the welfare function is not additive. Further it is obvious that inequality in wealth or income is felt most keenly among members of what we have defined to be a symmetric population. A symmetric group may be stratified into homogeneous groups according to income. In such a homogeneous group alone will all the postulates of welfare given above be more or less true.

It is desirable therefore that inequalities be tackled with respect to the well-known symmetric groups into which the whole population naturally resolves itself according to occupation or otherwise. It is essential that in each symmetric group there is a certain basic equality of incomes, superposed and supplemented, it may be, by specific honoraria, or other recognitions of merit in extraordinarily deserving cases. If inequalities of income keep pace with natural inequalities in endowments of capacity, intellectual or otherwise, the inequalities of income will not be poignant.

Some mathematical formulæ will now be given for equal distribution of incomes in a given symmetric group with certain criteria for determining the existence of over-employment or under-employment. In respect of symmetric groups, full advantage may be taken of the usual postulates of welfare and welfare functions W(I), I being the income, *viz.*,

(1) that welfare is additive;

(2) that marginal welfare, dW/dI or $W'(I)$, diminishes with increase in income; in other words, the welfare function is concave to the income axis; and

(3) that marginal welfare becomes almost insensitive to increase of income after a certain level is reached.

Indeed, one of Dalton's assumptions was that equal increases in economic welfare, at any rate, after income is greater than a certain amount, should correspond to more than proportional increases in income. The welfare function must be such as to indicate the maximum income consistent with the highest welfare.

Let I be the total income of N persons in a symmetric group. Then the equalised income is I/N, which will

secure $NW(I/N)$ the maximum total welfare of the group. But this maximum is not absolute and can be improved in two ways according as N or I is kept constant and the other is made to vary:

(1) by increasing I when N is constant, which is Pareto's suggestion that the total income must increase more rapidly than the population in order that inequality of incomes may diminish;

(2) by adjusting N suitably in the manner to be presently described, when I is constant.

The function $NW\ (I/N)$ is maximum, when

$$W'(I/N) = W(I/N)/(I/N) \quad \ldots \quad \ldots \quad (A)$$

This equation can be solved by a simple geometrical construction:

From the origin O draw OP to touch the welfare curve at P and from P draw a perpendicular to the income-axis to meet it in M.

If $OM = I'$, the maximised total welfare is $IW(I')/I'$, and to obtain this maximum the population must be adjusted to I/I'.

The criteria for under-employment and over-employment follow immediately as a corollary:

(1) If the number of the employed is greater than I/I', there is over-employment; it is likely that retrenchment will secure better total welfare. A similar phenomenon is observed by Bowley with regard to the income of a trade union when the rate of wages is raised and some members are thrown out of work, thereby securing aggregate advantage of its members. 'Every one, including those at play, could get more.'[4]

(2) If the number of the employed is less than I/I', there is under-employment and there

[4] The author is indebted to Prof. K. B. Madhava for drawing his attention to the phenomenon observed by Bowley in his *Mathematical Groundwork of Economics*.

is scope for more employment consistent with increase of total welfare.

Arguing in the manner of Bernoulli, as quoted in Marshall's mathematical appendix to his Principles of Economics, one may take a welfare function in the form

$$W = k \log (x/a),$$

where a is the income corresponding to the barest necessaries of life of the group in question and k is a constant depending upon the temperament, habits, etc., of the individual symmetric group concerned.
By equation (A),

$$I' \text{ is given by } k/I' = k \log (I'/a)/I',$$

so that

$$I' = ae, \text{ where } e = 2{\cdot}718281828\ldots\ldots\ldots\ldots$$

It is remarkable that this value is independent of k, the constant associated with temperaments, etc.

Taking a to be Rs. 15 per month according to the low Indian standard of life the equalised optimum-welfare-income should be about Rs. 40 per month per individual. This is according to the Bernoullian law of welfare. One defect, however, of this law is that it allows W to become indefinitely great, without reaching a finite maximum limit.

It is possible to define a quadratic law of welfare, by the equation

$$W. = k(x-a)\ (x-b),\ k<0,\ 0<a<b,$$

which will work very satisfactorily for incomes in small ranges. In this definition zero welfare occurs at $x = a$ and the maximum at $x = (a+b)\ /2$, and the welfare diminishes for increase of incomes beyond the maximum. The equalised optimum-welfare-income is now given by

$$k(2x-a-b) = k(x-a)\ (x-b)/x, \text{ which leads to } x^2 = ab.$$

For example, when $a = 40$, $b = 1000$, the equalised optimum-welfare-income is

$$\sqrt{40000} = 200.$$

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A. A. KRISHNASWAMI
AYYANGAR, M.A., L.T.

International Equilibrium in a Complementary Economy

In the beginning of his article in the January 1943 issue of this Journal,[1] Mr. Anil Datta seems well started on his way to demolishing the foundations of the Free Trade position. But by the time the end is reached one is left with the feeling that the edifice is still standing in spite of Mr. Datta's assaults.

Mr. Datta's analysis of facts regarding the geographical concentration of the raw material resources of the world is not likely to be questioned; one would have thought that the logical conclusion would be that it is desirable to throw these resources open to every country in the world, *i.e.*, to enforce Free Trade. Instead of drawing this obvious inference, however, Mr. Datta says vaguely that because "the problem of foreign trade as a means of securing vital raw materials (as distinct from participation in the commercial 'gain' from international trade) is never discussed or even posed in the Classical system" (p. 230) the whole theory of international trade may have to be recast. The extent of recasting necessary is a matter of opinion. In any case, it is a pity that Mr. Datta has not made it clear that the facts cited by him do not affect the desirability of Free Trade.

The arguments adduced by Mr. Datta in Section III (pp. 231—48) appear to be a little more complicated than are strictly necessary, but that is a matter of taste. I feel, however, that the reasoning by which the national income is supposed to be increased by $\triangle E/i$ (p. 238) is open to objection. Mr. Datta claims that when $i=\frac{1}{4}$ in a country, it means that any level of national income requires the import of raw materials etc., to the value of one-fourth of that level. This proposition follows from his very definition of i. But why should the converse be true, that every increase in raw material imports will lead to an automatic increase of four times its own value by way of national income? Where do the men and machines who produced Mr. Datta's original $\triangle E$ come from? Presumably from the unemployed. Surely that reduces the number of men and machines who are potentially available to work up the extra raw material imports into additional national income? Or does Mr. Datta propose to

[1] "International equilibrium in a complementary Economy."

draw upon a cornucopia of men and machines? I strongly feel that an economic universe bounded by such assumptions would be no more realistic than the one postulated by the "esoteric, doctrinal mysticisms of the religion of Free Trade and the Gold Standard" (p. 224).

In Section IV Mr. Datta applies himself mainly to expounding the desirability of a 'national' viewpoint in regard to international trade policy. He seems to consider manufacture 'intrinsically superior' to agriculture, on the curious ground that in agricultural countries there is a chronic temptation towards reckless exploitation of the soil. One would have thought that the coal and petrol used to a preponderating extent in manufactures today were at least equally liable to 'reckless exploitation.' Apart from all this, it would be interesting to know how Mr. Datta proposes to distinguish between individual, commercial and national gain. To evaluate national gain, should we not at least balance individual gains and losses? If we are to ascend the 'ladder of intrinsic superiority' shall we not spare a thought for those who live on agriculture?

With Mr. Datta's remarks on the pre-1914 Gold Standard as essentially a system geared to the needs of London *haute finance* I am entirely in agreement; and hardly anyone will question his statement that free or freer trade is no substitute for political federation. It certainly needs a supra-national authority to impose Free Trade as between countries.

After reading Mr. Datta's article, one is left with the feeling that his promise to "offer a dynamic criticism of the doctrinal basis of free trade and gold standard in an economic universe where the classical complex of postulates and axioms are irrelevant" has not been fulfilled. Mr. Datta's main thesis is reducible to three arguments *viz.*, (i) That the world's raw materials are concentrated in a few favoured spots. The classical system did not take this into account, (ii) that under an international system the possibility of a country's increasing its standard of living is dependent on the different dynamic coefficients. The classical system omitted to take into account the rôle of national incomes in international trade adjustments. (iii) That the situation resulting from the free play of the law of comparative costs may not be compatible with the national interest. When we consider the above arguments

closely, however, we find that (i) really reinforces the case for access of all countries to raw materials, *i.e.*, free trade. There is at least one serious flaw in (ii); and (iii) is vitiated, at least to some extent, by the vagueness of the concept of national gain.

Mr. Datta states that the aberrations of politicians are not responsible for the muddle of restrictionism. This is clearly open to question. Politicians, of course, are not entirely to be blamed for this state of affairs. In the nature of the case, they have to pay more attention to the vociferous industrialist than to the unblissfully ignorant consumer and the unmurmuring bovine peasant.

Madras. J. S. RAJ.

Control of Inflation

There is a continuous rise in prices all-round and people have naturally wondered what this has been due to. Of course there has been a shortage in commodities, but this can account only for a small part of the rise in prices. Transport difficulties—shall I call it transport mismanagement, as many of these difficulties could have been overcome by a little more efficiency on the part of the transport authorities—may have been responsible for another small part of the rise in prices. But the main causes in my opinion for this terrible rise in prices in this country have been inflation, speculation on the part of the middlemen and hoarding on the part of the cultivators and traders. There has been continuous issue of currency notes by the Central Government so much so that it has now reached the Rs. 750 crore mark and may soon reach even the Rs. 1000 crore mark. This, however, does not take into account the issue of one-rupee notes for which no reliable statistics are published. When we consider that the pre-war figure in this connection was something less than Rs. 200 crores, we can easily imagine what a tremendous increase has taken place in note-issue. We are adding to our note-issue every week at a rapid rate mainly on account of the 'United Nations' purchases in India for war needs. These purchases are being paid for in sterling in England where large sterling balances have accumulated on our account and corresponding payments are being

made in this country through the issue of notes. With the rapid increase in the amount of currency, there is a continuous rise in prices which is encouraging hoarding and speculation on the part of middlemen and traders, which, in their turn, are adding to the price-rise. Thus it is creating a sort of vicious spiral and prices are continuously rising. Inflation, therefore, is the major cause of this rise in prices and unless this can be checked, no solution can be found. Of course one has to face the fact that notes will have to be issued in order to finance the war-needs of the United Nations. What then is the remedy? The remedy really lies in the adoption of an effective borrowing policy. There should be an immediate withdrawal of Rs. 200 to Rs. 300 crores of currency from active circulation and in future redundant currency should be withdrawn as fast as it is put in circulation. The Government of the United Provinces are claiming that they have adopted certain anti-inflation measures through their new taxation and collective saving schemes. They may be able to withdraw a few crores here or a few crores there, but that will not touch even the fringe of the problem. What is needed is an effective borrowing policy and for this purpose an immediate raising of the rate of interest from 3% to 5% is indispensable, so that there might be a continuous flow of voluntary subscriptions to Government loans. Unless the Government is prepared to pay the proper price for the loans, the redundant currency cannot be withdrawn from circulation as investors will not come forward in adequate numbers because they are afraid that there will be capital depreciation in their investments if they invest them at the present artificially low rate of interest which cannot continue for long and is bound to come to an end sooner or later, sooner rather than later, with this huge destruction of capital goods throughout the world due to the ravages of war. Therefore the cheap money policy of the Government of India is mainly responsible for this terrible state of affairs. If I am asked who are the chief enemies of India to-day, I would unhesitatingly reply that the chief enemies of India to-day are the sponsors of the cheap money policy and here I emphasise the word to-day as I fully recognise that the cheap money policy served India well in the past, but is a positive menace to-day as it stands in the way of an effective borrowing policy and without an effective borrow-

ing policy and consequent withdrawal of redundant currency from circulation, the dragon of an inflation cannot be knocked on the head.

It may be argued that the sudden raising of the rate of interest to 5% may upset the capital market as existing security prices will go down considerably but the capitalists suffer and lose much more if inflation cannot be checked in time besides the immense amount of injury that is inflicted on the country at large and everybody suffers in the process. I would, therefore, urge earnestly on the Provincial Government the imperative necessity of impressing upon the Government of India the urgent need for revising their cheap money policy and thereby following an active borrowing policy without which the problem, in my opinion, cannot be solved. I recognise that the Provincial Government has no power in this matter and probably the Government of India is not its own master either, as it may be a question of High Finance, dictated by the City of London. Then I can only say, Amen, God save India!

University of Allahabad. M. K. GHOSH.

Is Economics Non-Moral?

Economics is said to have nothing to do with morals. It is a science. It simply describes and analyses economic phenomena. It does not pass moral judgments on them. Robbins defines it as dealing with 'the forms assumed by human behaviour in the disposal of scarce means' between alternative ends. The means and the ends are its ultimate data. They may be good or bad, moral or immoral, equitable or inequitable. That is no concern of economics. It is a non-moral science.

This point of view has resulted from economics being regarded as a science after the pattern of the physical and exact sciences. Those sciences investigate phenomena in the realm of nature and propound the laws governing those phenomena. Economics like them, it is alleged, investigates the phenomena of economic society and discovers the laws ruling therein. The physical sciences take physical phenomena for what they are worth. They do not say anything about whether they are good or bad. The

laws that result from the investigations are non-moral laws. Economic science proceeds on this analogy, studies economic phenomena as it finds them and looks upon the laws arising therefrom as non-moral.

We need not trouble ourselves about whether economics is or can become a science of the type of the natural sciences. I believe that it is not and can perhaps never be a science after their pattern. Natural phenomena are for all practical purposes permanent; economic phenomena have changed in the past, are changing in the present and will change in the future. There is thus a basic difference between the two; and this difference makes as clear as daylight that permanent laws of the kind of physical laws cannot be had in economics. Economic laws can be only relative excepting in a very limited sphere—the sphere where competition allows exchange processes to take place freely. Even here their permanency vanishes if society or government puts an end to the regime of unfettered competition as has to a very large extent been done in Russia.

This is by the way. The relevant point is that there can be no analogy between the physical sciences and economic science on the score of being moral or immoral. The former deal with physical phenomena as they are, *i.e.*, as they are fixed and arranged by nature. The latter is concerned with social phenomena which are the result of human activity. The former cannot be altered by man the latter can be. The question of the former being good or bad is therefore a question that is altogether irrelevant. But the question of the latter being moral or immoral has every relevance. It is only here that the question can arise.

We thus see that no real analogy exists between the physical sciences and economics whether we look at the issue from the side of the permanence of the phenomena of the two or of their being moral or immoral. Economists have been misled to see the existence of an analogy which is not there in their anxiety to put their science on a pedestal as high as that of the physical sciences.

This, however, is not an answer to the question: Is economics non-moral? Before we attempt to give an answer to it we must fix the tests whereby we should judge whether anything is moral or immoral or non-moral. It can be easily said that nothing can be moral or immoral

unless we look at it in its relationship to man. Even an inherently immoral man is not immoral so long as he does not do something which affects his fellow-beings prejudicially. Whether anything is moral or immoral depends upon the effects it produces in relation to society. It is moral if the effects are good; it is immoral if they are evil. Secondly, a thing is moral or immoral in accordance with what it is based upon. Things arising out of a right equitable basis are moral; those emerging out of a wrong inequitable base are immoral. A thing is non-moral if its effects are neither moral nor immoral.

Let these tests be applied to economics. From the results we obtain we shall judge whether it is to be regarded as moral or immoral or non-moral. First, we might consider the base of the science. It will be easily admitted that it is a generalisation from the capitalistic system in its unhampered working. The most important characteristic of that system is the existence of social relationship which is not based on justice. In the social structure there are in the main two classes—the haves and the have-nots, the privileged and the unprivileged, the propertied and the proletariat. This means huge inequalities of income and opportunity. In his book *Economics of Enterprise* Davenport brings out this fact very clearly. He tells us that these inequalities of income are iniquitous as they are based on capitalized bounty of nature, capitalized privilege and capitalized predation. The classical economists noted this fundamental fact of socio-economic structure and developed economics from the side of the disposition of social resources, that is, from the side of production, supply and costs of production. Their Economics was not however out of harmony with morality as the chief problem of the time was that of increased production and by the facts of the situation and its rationalization classical economics was led to increase production. So the general good of society was on the whole promoted.

But the antithetical character of the social structure forced itself upon the attention of the social scientists. It had already been noted even by the veteran classist David Richard. He had pointed out that antagonism existed between the interests of the capitalists and the landlords on the one hand and between those of the capitalists and the labourers on the other. Classical economics which propounded the doctrine of economic harmonies

was attacked on this score by the socialists. Economists being unable to withstand their attacks shifted their ground. Marginism was brought into existence. Economics was developed from the side of feelings that precede or accompany exchange processes from the side of consumption, demand and utility. The existence of the social relationship was ignored. There was no need to bother about it any more. Utility and disutility are not concerned with it; they exist independently of it. The theory that was advanced was that utility and disutility tended to balance. Economic harmony was there as ever. There was nothing wrong with the existing social order. That was at any rate the impression that marginism created and thus it posited itself as an apologia for things as they were. This is clearly stated by Eric Roll in the following words:—"Theorems which had been developed on a basis of equal individuals undertaking abstinence and toil and trouble could have nothing to say about the real social differentiation of the individuals. But more often they were excellently suited to defending (by a trick often practised by systems of thought derived from the philosophy of natural law) an existing reality far removed from the abstract assumptions."

The abstractions of the marginalists were clever and skilful no doubt. They created a false sense of security theoretically. But this was soon dispelled by the logic of facts as well as scientific thinking. It is fully realized now that the whole analysis of pleasures and pains, of satisfactions and dissatisfactions or disutilities and costs, could not hold unless on the assumption that every one had the same income or an income in proportion to his sensibility or power of deriving enjoyment from economic goods. But this assumption does not correspond with facts because of the social differentiation of individuals. This is to say that we cannot but take note of that differentiation. Without this our discipline cannot give us a right analysis of what is. If it is made to present an analysis that analysis must be incorrect. Whether an economics of this type can be called non-moral or immoral I would leave unanswered.

So much about the basis of economics. Let us now come to its results. These might be considered under two heads: (1) direct results and (2) indirect results. Direct results are those that followed from what economica

actually said in the sphere of economic policy and indirect results are those that have come about by this science holding itself neutral as between good and bad in the economic field. Both these have been awful indeed. Consider the former first. Economics furnishes no solution of the labour problem or hope for the betterment of the condition of the wage-earners. Not only that. It has been responsible for the callousness that was shown by the capitalists and statesmen towards the miseries of the poor labourers from about the beginning of the Industrial Revolution to about the passing of the Poor Law Amendment Act of 1832 and that still characterizes not unoften the attitude of that section of the community—particularly of the capitalists towards labour. Economics taught that no government measures could help the labourers. If they were resorted to they would defeat their own ends. Population would increase and the labourers would be as badly off as they were before. The laws of economics were inexorable. Which means that comfort existed for the privileged few and the majority were to serve in the words of J. M. Clark "as instruments of production, food for powder and means of sustaining the elegance of the gentry."

Take now the indirect results—those that have arisen out of economics adopting a neutral attitude in the economic field. The science is, in the words of Barbara Wootton, "the study of market processes," that is, of "the mutual relations of demand, supply and price." These relations are measured in terms of money. The pecuniary analysis which it amounts to is devoid of all ethical and aesthetic considerations. It is concerned only with what is, what is desired, and not with what ought to be or is desirable. What is desired may be desirable or undesirable. This is not in the least cared for. The one criterion of its being is that it must fetch a price. And the higher the price it fetches the better it is in every way. Money has come to occupy the principal importance. It is the chief value; it is King; it is God. It may be earned by fair means or by foul means. That does not matter. The manufacturer of a destructive instrument like bombs is as productive as the discoverer of an anaesthetic like chloroform; the producer or seller of intoxicating drugs is on the same footing as a University teacher; the gambler in the share market who gathers wealth by mere speculation

holds the same position as the captain of industry which produces consumption goods and gives employment to so many; the floater of companies who gets rich by false pretences and ruins a number of innocent shareholders is the social equal of the maker of automobiles or radio sets —provided in each case the income of the two is the same.

All ethical valuation has been cast to the four winds. Cheating and exploitation are the order of the day. They are legalized robbery. Business is business; everything foul is fair there. Masters exploit their men by paying them lower wages than their productivity would warrant; merchants cheat consumers by propagandising worthless stuffs and charging prices out of all proportion to their costs of production; producers ruin their brother producers by any and every underhand means. None is scrupling to rise to riches on the dead bodies of others—one's fellow-beings. There is nothing wrong about this in the world of the so-called liberal economics. Those who allow themselves to be cheated or exploited get what they deserve—due to their own fault. They should be as alert as those who are responsible for their checkmating. But here is the rub. How can they be so as long as there is the inequality of exchanges because of the social structure?

What wonder is there then if there is no sense of social security particularly among that vast majority who are known as the proletariat,—the unpropertied and unprotected labour class and the poor consuming public. In the utopia of the science all the defects that are there will disappear. Things where they are wrong will ultimately right themselves and the right social order will establish itself. Will it? People have waited for over two centuries for this millennium to be realized. It has not thus far appeared even on the distant horizon. Nor are there any signs of its appearance. It cannot appear unless the social structure is altered and justice takes the place of soulless competition; unless the non-moral attitude of the science is dropped and it is realized that economics divorced from ethics is an immoral science, a 'dismal science' as Ruskin called it. Nay, it cannot appear unless ethical considerations play or are made to play an important part in business activity.

University of Allahabad. G. D. KARWAL.

REVIEWS OF BOOKS

MEN, MONEY AND MARKETS, by M. D. R. Leys. Published by Longmans, Green & Co. Pp. 266. Price 6/- Shillings.

The science of Economics is coming to reflect more and more the immense variety and complexity of modern life. Two hundred years ago people conducted their ordinary business of life on a few clearly understood principles or precepts. To-day they feel helpless before forces which originate in regions beyond their ken and which operate in a manner that utterly confuse them. Inflation of currency, interlocking of directorships, underwriting of issues, quotas and clearing agreements, the Bank Rate, and the constant succession of booms and depressions impinge upon the life of everybody. A dependable guide is necessary. Of the many books that seek to explain the nature of economic phenomena and the working of the economic system one can safely recommend Leys' *Men, Money and Markets.* The purpose of the book is to introduce to ordinary folk the modern problems of production, exchange, finance and currency. It is a brightly written version of what is an abstruse subject. It describes the working concepts of modern economic life with many striking and lively examples.

Each age has its special set of difficulties and each age produces its own analysts who formulate laws that explain or seem to explain the events of their own time. Thus Adam Smith in the eighteenth century was concerned with the State and its control over trade; Ricardo in the early nineteenth century formulated a theory of rent and Mill thirty years later, when the factory system had fully manifested itself, developed a theory of wages. Each law or proposition thus framed with reference to a particular set of circumstances has been challenged or modified as new factors emerged which were not allowed for by the pioneers of the theory. These varying conceptions and explanations are in a constant process of solution and at any given time our theory is seen to be striving at ultimate truth but never quite getting there. Mr. Leys has done a distinct service to the layman in expounding principles and precepts of Economics which attempt a satisfactory explanation of the puzzling and complicated economic world in which he moves and earns his living.

V. L. D'SOUZA.

WAR AND INDIAN ECONOMIC POLICY, by D. R. Gadgil and N. V. Sovani. Published in 1943 by Gokhale Institute of Politics and Economics, Poona 4. Pp. 130. Price Rs. 5.

During the last 15 months of the war the prices of almost all commodities have risen tremendously. During the first 27 months of the war the price level increased from 100 in August 1939 to about 153 in March 1942. Since April 1942 there has been a galloping rise in prices. The index number reached a high figure of 238 in December 1942 and by May 1943 it touched a very formidable and high figure

of 325. During the same period the total note circulation increased from 227 crores in 1939-40 to 413 crores in March 1942 and since that date the rise has been still more serious reaching 573 crores in December 1942 and a very impressive figure of 708 crores in May 1943. The tendency for the currency to increase still continues, the figure for the last week of June being 734 crores.

Owing to unbearable increase in prices the economic situation in the country has become very vulnerable and great dissatisfaction has been expressed for the economic policy which is being followed in the country. The commodities are getting scarcer and scarcer, the money is getting more and more and the burden of the working and middle classes is becoming heavier and heavier.

Professor Gadgil has done a great service to the country by publishing this most valuable and timely book in which he has put under searching criticism the economic policy of the Government and has well succeeded in pointing out in a very clear and lucid manner the fundamental defects in the economic policy of the Government and has made some very valuable suggestions to improve the situation. He has fully succeeded in proving that the Government is following a policy of monetary inflation which in the long run is detremental not only to 'the interest of the country as a whole but to the interest of the Government itself.

In a brief review like this it is hardly possible to give the various valuable suggestions which the authors of the book have put forth and it is best if the book is read as a whole. I feel myself in full agreement with most of the suggestions put forth by the authors but I have failed to realise the implications of two suggestions put forth by the authors to mitigate the inflationary effects. Firstly, the authors justify the imposition of recent excise duty on the manufacture of Vanaspati Ghee. Ghee is a very important element in the diet of Indian population. The wholesale price of ghee has increased more than three-fold from Rs. 40 per maund to Rs. 122 per maund (Lyallpur wholesale prices). Ghee is an article of daily consumption and is very necessary in the otherwise very unbalanced diet of the people. Even a slight increase in the price of this article puts a serious strain on the family budget. Until recently we were worried about the surplus stock of oil seeds and groundnut. In normal times the export of these products was regretted by most Indian economists on the grounds that by exporting these products we deprive the country from a very valuable source of manure which is so necessary, and is glaringly deficient, in Indian agriculture. An excise duty on a new industry which is so beneficial for the country and the product of which is mostly used by the less prosperous classes who are already bearing a very heavy burden of indirect taxation, can hardly be justified.

Secondly, the authors in order to remove the inflationary effects would like to see a large increase in railway freights. I have failed to see how this would help the matter. As a matter of fact the effect will be quite the contrary as increase in transport cost is certain to seriously effect the marketing cost of goods, and the prices are likely to rise. The effects are likely to be inflationary rather than deflationary.

The book is a very valuable contribution to a subject of vital interest to the country and I strongly recommend its study to all students of Economics and I only hope that the suggestions put forth by the authors will receive the most careful attention by those who are responsible for framing and executing the economic policy of the country.

ANWAR IQBAL QURESHI.

THE CONCEPTION OF SURPLUS IN THEORETICAL ECONOMICS, by Dr. A. K. Dasgupta. Published in 1942 by Messrs Dasgupta & Co., Calcutta. Pp. 211. Price Rs. 6.

In this brilliant book, which is a result of two years' research work at the London School of Economics that earned the author a Ph.D. Degree, Dr. A. K. Dasgupta looks at the development of economic theory from a fresh point of view. The theories of profit, rent, and consumer's surplus have been studied in some detail. He successfully demonstrates that the same fundamental principle determines all the payments—rent, wages, interest, etc. Rent is not a "differential surplus" but arises because of specificity. Factors which cannot move elsewhere, temporarily or permanently, earn rent and are at the mercy of the market price while factors which are non-specific and can move to an alternative occupation *must* get, in conditions of competitive equilibrium, a payment equal to their marginal productivity. The author is clear on the point that rent is not necessarily a payment for "land", it can be earned by any factor of production, be it labour or capital provided that factor is specific.

Dr. Dasgupta clearly states that to call rent a "surplus", as was done by Ricardo and is still done by his followers, does not bring into full view the complex of forces operating in the economy. This for three reasons. "Firstly, it is not an independent theory of distribution. With reference to any particular factor it tells us that when other factors are paid off it receives the residue that is left over. If there are only two factors and the value of one is determined independently, then, of course it is unambiguous to say that the other receives the surplus. Ricardo did really proceed upon this assumption. In a simple scheme with which he started, land and labour were the only factors of production, of which labour had an absolute supply price based on the standard of living. Wages therefore were independently determined and rent described as a surplus. This is why he was so much puzzled over the time, element as a third factor. Secondly, it does not provide a clue to the unit demand rate for a factor. According to the surplus principle, we discover the aggregate income of a group first and then the fractional income by averaging, whereas—in so far as our factor is divisible, and surely land, of all things, is divisible—it is convenient to proceed from the unit demand rate to the aggregate income, for we can then profitably watch the operation of the principle of substitution at the margin. Thirdly, the conception of factor income as a surplus has a peculiar suggestiveness that it is no part of cost. It does not bring out the functional relationship between factor prices and prices of goods of the first order." (Pp. 66-67.) These arguments

conclusively prove the necessity of using the modern terminology even if somehow Ricardo's doctrine can be stated correctly in the language of "surplus" without making the elementary mistakes made by Ricardo.

As regards the consumer's suplus, the author has correctly pointed out that the doctrine makes sense if, as Marshall did, we assume the marginal utility of money constant. Dr. Dasgupta gives an important geometrical construction (pp. 126-27) in support of this argument but he somehow fails to point out that we owe this construction to Auspitz and Liebon, the French Economists.

In connection with profits the author agrees with Prof. F. H. Knight that profits arise from *unexpected* change. The mere fact of change, as J. B. Clark wrongly believed, does not give rise to pure profits because if this change is expected the producers can take account of it in their calculations and there is no room for pure profits.

It would appear by a remark of the author on page 187 that "the tendency of the economic forces is not necessarily towards equilibrium; the path followed by the different parts of the economic system is not necessarily convergent." No one would disagree if the author said that in reality equilibrium might never come but when he says that there is not even a *tendency towards* an equilibrium he is not on safe ground. The *Cobweb Theorem* clearly demonstrates that there is such a tendency provided demand is more elastic than supply or, in more general terms, if the velocity of adjustment of demand is greater than that of supply. And in general we are correct in assuming, and this can be proved, that demand is more elastic than supply. Hence, in general, we are justified in assuming a tendency towards equilibrium.

The book deserves to be read by all students of economic theory. It is presented in a non-mathematical and simple style and is a very satisfactory statement of the modern position on the subject.

P. C. JAIN.

INDUSTRIAL DEVELOPMENT OF MYSORE, by R. Balkrishna. The Bangalore Press, Lake View, Bangalore, 1940. Pp. 319. Price 5 Shillings.

It is a thesis approved by the University of London for the Degree of Doctor of Philosophy in Economics. As remarked by Dr. Vera Anstey it is a pioneer work on the growth and structure of industry in the premier Indian State of Mysore. It is a happy beginning and if such works are undertaken by other States and the provinces of British India we can feel proud of possessing reports of the whole country.

The book under review is divided into ten chapters, dealing with all sorts of economic life in the State. The author has very thoroughly discussed the small-scale as well as the medium-sized and large-scale industries. He has ably shown the place of cottage industries in the economic life of a country, especially in a State like Mysore having no access to the sea. His comparison of Geographical factors obtaining in

Mysore with those of Switzerland is interesting and instructive. He examines critically the economic principles as regards structure and organization of industry, industrial finance, state aid to industry, and the place of cottage industry in the industrial system of the country and then illustrates them from the conditions obtaining in the Mysore State. State in the industrial organisation of the State is simply commendable. This makes the study useful and realistic. The part played by the It has done what is essential but only that much and no more and only for that length of time as is absolutely essential. Some of the major enterprises launched by the State were given over to the public when they had acquired a firm footing. We wish the examples were followed in British India and other Indian States too.

The book is neatly printed and well got-up. We hope it will be widely read by students of Economics and Commerce and by responsible officials of the State Departments.

K. L. G.

INTERNATIONAL ECONOMIC DISINTEGRATION, by Prof. W. Ropke. Published in 1942 by William Hodge & Co., London. Pp. 283. Price 21 Shillings.

The idea of this investigation originated in a conference of economists, organised by the Rockfeller Foundation and held at Annecy in July 1936 and Prof. Ropke was entrusted with the task. The present volume is the result of his research. He has come to the conclusion that during the 19th century international economic integration developed so stupendously because of the spread of a commonly aaccepted *order public international* based on a net work of international treaties or unwritten rules of international law, which were respected because there was an undisputed moral code behind them. This spirit was reflected in the various institutions which regulated the international economic relations of that time, especially the international monetary order, which finally culminated in the universal gold standard. And it is the destruction of this mechanism which along with the growth of a virulent form of economic nationalism in the industrial and the agricultural field explains the process of disintegration which we have since witnessed.

The author gives due importance to agricultural nationalism in bringing about the disruption of world economy. He correctly points out that in large sections of agriculture, especially in the production of cereals and cotton, an acute depression had started long before the outbreak of the industrial depression, and many have adopted the view that it was just this concurrence of a more or less cyclical industrial depression with a long agricultural depression which explains the intensity and the obstinacy of the general depression of the 'thirtees. The agricultural nationalism of our times has in a number of ways been one of the most important contributory factors in the disintegration of world economy. The author further comes to the conclusion that whereas the effect of the policy of agricultural protectionism on international economic disintegration is indisputable, it is by no means clear whether the parallel development of the industrialization of "new

countries," as furthered by protective measures, is to be considered also as a disintegrating factor. This is so because the process of industrialisation, quite in contrast with agricultural nationalism, cannot lead immediately or even within a longer period to more economic indepedence and less foreign trade. Industrialization means, of course, that there will be less imports of some products, but the very process of industrialization makes it necessary that there will be more imports of other goods. In a last chapter, Prof. Ropke gives his reactions to the catastrophe of war which fell upon Europe when the manuscript of this book was almost complete.

This is a stimulating book and is indispensable to anyone interested in shaping the future foreign trade of the world on rational lines.

P. C.

THE THEORY OF INTEREST, by S. Lakshminarasimhan. Published by University of Mysore, 1942. Pp. 250.

The Theory of Interest by Mr. S. Lakshminarasimhan published in 1942 contains fifteen chapters besides a foreword, a preface and a bibliography. The seven chapters from the third to the ninth are devoted to the treatment of the various theories of interest. The chapter that examines the classical theory is of course the most important for a student of the theory of interest. For, it is in that chapter that Keynes's theory—as a criticism of the classical theory—comes up for discussion. The book is a valuable work on the theory of interest and is bound to prove most useful to students of theory. But the reviewer cannot help remarking that the author's treatment of Keynes's theory is as confusing as Keynes's own exposition of it. The chapter on the classical theory of interest shows confused reasoning from top to bottom. In what follows the reviewer will make an attempt at exposing some of the fallacies in Keynes's theory and pointing out the confusion that prevails in the author's mind.

On page 4 it is said that according to Keynes one can get interest for lending money which he has not saved but which he has inherited. The author states however that saving is the necessary condition of earning interest because without saving there will be nothing to lend. In other words, the author considers Keynes's view to be wrong. Yet further on in the chapter the author upholds the theory that is based on this criticism of the classical theory that saving is a necessary condition for interest.

The controversy about the equality or otherwise of saving and interest is meaningless. For, it all depends upon how we define the words saving and interest.

Keynes's statement only amounts to this that if what is not consumed is investment and again if what is not consumed is saving then saving equals investment. But then what happens to hoarding which plays such a dominant part in Keynes's theory? It is said that an individual can hoard but not the society. For, one man's hoarding is another man's dishoarding. But how it is so is not at all clear. It is

no argument to say, as does the author of the book, that "net hoarding in the sense of an increase in the total stock of money can only take place when the monetary authority issues more money. But the increase in the total stock of money does not in any way upset the equality between saving and investment. For the new money must be spent either on consumption or on investment and as usual we get the equality between Saving and Investment." So the gist of the matter appears to be that hoarding is impossible because the new money must be spent either on consumption or on investment; which means saying that there is no hoarding because money is not hoarded—it is either consumed or invested. Is this not the logical fallacy of arguing in a circle!

The classical theory maintains that interest is determined by demand and supply of saving which in other words means that the rate of interest brings about equality of supply and demand of saving. Keynes criticises this view. For, he points out the rate of interest does not affect saving directly but through the level of income. Now, why does it not affect saving directly? The answer is, as Cassel points out, that the amount saved by individuals is largely insensitive to changes in the rate of interest. "With a rise in the rate of interest some may save more, or the same, or less than they did before...The proportion of its income which a community saves depends upon the desire for security and power and psychological state of preference as between the present and future." But if this is correct we might as well argue that the price of a commodity is not determined by its supply and demand. For, the demand of a commodity does not depend on its price alone. With a higher price some may buy more and some less. Moreover the demand depends on the size of the income, tastes, fashion, etc. Yet no one ever argues that the price of a commodity is, therefore, not determined by the forces of supply and dmand. What Keynes's criticism amounts to is only this that saving depends not only the rate of interest but also on other factors. Other things being the same, the supply of saving depends on the interest rate.

The burden of Keynes's song is, of course, that interest is not determined by the supply and demand of saving but by the supply and demand of money, or, loanable capital as some would express it. Now this amounts merely to shifting the focus of attention from one aspect of the problem to another. There are three things a man can do with his income, in the terminology of Keynes: he can either spend it or save it and hoard it or save it and lend it. If the elementary principles of economics be correct as all of us think they are, then the marginal utility of spending, the marginal utility of saving and the marginal utility of lending must all be equal to one another. If then the rate of interest equals the marginal utility of lending, it must also equal the marginal utility of saving. If one increases the other must also increase. It is difficult therefore to make much sense of the criticism of Keynes. Rightly has it been remarked that Keynes's theory is not antagonistic but only alternative to the classical theory.

The author creates another confusion on page 48. The rate of interest, he says, equals marginal productivity of capital. But it is the rate of interest that determines the marginal productivity of capital. This is certainly absurd. In the terminology of Keynes the schedule

of marginal efficiency of capital helps to determine the rate of interest. And if this does not mean that the rate of interest is determined by marginal productivity of capital we do not know what else it can mean.

We would like to point out that although, as the author remarks, saving, incomes, rate of interest and investment, mutually determine one another, there is from each point of view factors that are determining and factors that are determined. Thus, the price of a commodity in the case of pure competition is determined by its supply and demand in the market and this is true in spite of the fact that for any given individual seller the price is a given factor and it is not determined by but determines his supply and thereby the demand for his output. To argue, therefore, that the rate of interest in the market is not determined by the marginal productivity of capital is certainly absurd and shows ignorance of the knowledge of pure theory.

Coming to the close of the chapter on the classical theory of interest we find the author saying, "The classical system is logically most consistent. Our object in these pages is to point out the shortcomings and omission of its theory. The classical theory was deficient on points of formulation. It attached much importance to the influence from the side of goods and rather little importance from the side of money." It is difficult to make much sense out of such a statement. It is only the last sentence that perhaps means something. However, we would like to mention that the classical economists were not fundamentally wrong in ignoring the quantity of money or the level of incomes. In fact they did not ignore it, but it did not appear clearly in their picture.

Coming to the Abstinence Theory of interest, the author says, "waiting can only be a subjective real cost if it involves abstemiousness on the part of the supplier of waiting, *i.e.*, the savers. But most of the waiting is supplied by relatively rich people to whom waiting does in no way mean abstemiousness . . . The concept of disutility or abstinence is, therefore, too narrow or too wide to have any significance at all." Here the author makes the same mistake as the critics of Senior have made. Abstinence does not mean abstemiousness. The abstinence theory merely asserts that you cannot get interest unless you abstain from consuming. Even the rich must abstain from consuming if they have to earn interest and in equilibrium the rate of interest must equal the disutility of abstaining from consuming. The unwillingness to accept the abstinence theory of interest is due to the fact that the word abstinence is erroneously understood to mean great hardship or abstemiousness. We would like to draw the attention of the critics of this theory to Davenport's work on Economics of Enterprise.

The chapter on Productive Theories of Interest contains, again, much confused thinking. The author maintains that productivity of capital is neither the cause of interest nor the determinant of its rate. In regard to the latter contention he argues that marginal productivity of capital as a rate depends on the value of capital. But the value depends on the market rate of interest. For, we capitalise future incomes at the market rate of interest to find the discounted value. Thus, the marginal productivity itself depends on the rate of interest and cannot therefore be said to determine it.

Keynes's General Theory is quoted in support of this connection. But may we not ask the author, then, whether he would not admit that interest is determined by supply and demand of capital and that the demand depends on productivity? What the author points out is merely the interdependence of marginal productivity and interest. The price of rice depends (among other things) on wages and wages in their turn depends (among other things) on the price of rice. The demand for rice depends on its price; but the price itself is not independent of demand. To argue therefore that the rate of interest is not determined by marginal productivity of capital is as absurd as to argue that the price of a commodity does not depend upon its demand.

The author's criticism of the Austrian Theory is the direct outcome of his inability to understand the meaning of the word time-preference. He says, "It is impossible to accept the existence of time-preference as a universal phenomenon." Again, "it is impossible to accept the subjective underestimation of the future as a legitimate factor in the supply of capital." Time-preference implies simply that we prefer a given enjoyment now to an equal enjoyment in the future, provided all other things remain the same. Time-preference is therefore an universal phenomenon. The fact that a lender of money gives up money now for money in the future, does *not* mean that he prefers the future to the present, as the author argues. He does *not* prefer the future and that is why he *charges* interest.

There are two chapters in which the author has succeeded in avoiding serious blunders and they are the concluding chapters on The Rate of Interest and the Price Level, and Conclusions. The book attempts much and it would have been a better thing for the author to state in a direct and straightforward manner the theory of interest as approved by him instead of reviewing the various theories one after the other. In explaining his own theory the other theories would naturally have come up for a brief criticism. The title of the book —The Theory of Interest—would then have been more appropriate.

J. K. MEHTA.

THE PROBLEM OF SICKNESS INSURANCE WITH SPECIAL REFERENCE TO CONDITIONS OF INDUSTRIAL LABOUR IN INDIA, by V. P. Keni. Published in 1943 by the Author, 9, Dumbell Road, Vile Parle, Bombay. Pp. 185. Price Rs. 5.

This small book has been published only a few months back and makes an interesting study of an important labour welfare measure which is on the anvil in this country. The appearance of this book, therefore, is very timely and we hope it would lead to an awakening of general interest in the social implications of sickness insurance which in its theory is rather a complicated affair. This book is noteworthy from two principal viewpoints. Firstly, it is the first book published in this country which deals exclusively with sickness insurance in relation to this country. Secondly, its author is not a professional economist but an Officer of Bombay Government, whose analysis, approach to the various problems and attempted solutions thereof are bound to be of

interest to us. These twin characteristics are also responsible for its strength and weakness alike.

Since the sounding of the death-knell of *laissez-faire* doctrine, and as a result of a broadening of social sympathies, the spread of Socialism, trade-unionism and other branches of labour movement and last but not least the consistent efforts of the International Labour Office, sickness insurance has been adopted by a large number of countries and in others it has been under contemplation for some time. The I. L. O. experts have made valuable studies in the leading principles and aspects of sickness insurance and the comparative laws, statistics and conditions relating thereto throughout the world, all of which are available in the I. L. O. Studies and Reports, Series M. Though some of these publications are now out-of-date and require revision, they can be said to have more or less exhausted the subject in so far as general and practically useful knowledge is concerned. Any new publication in this line is, therefore, to be valued for either making new researches of theoretical nature and propounding new principles, or for making a critical study of any scheme or schemes in operation, or for discussing and deciding the various controversies with which the subject is replete, or for submitting a tentative scheme for the introduction in a country or laying down leading considerations requiring attention in this regard. Considered from this viewpoint, the book under review falls under the last category, and in the words of the author, "the main purpose of this book is . . . to discuss some of the essential features of sickness insurance problem" (p. 6) as related to Indian conditions. However, the scheme which is discussed in this book is not author's own scheme but the tentative scheme framed by the Bombay Textile Labour Enquiry Committee. The author takes the recommendations of the said Committee in this connexion as axiomatic truths and his function has all along been to re-state them, justify them from quotations from the British National Health Insurance Act and some of the publications of the I. L. O., and touch upon some minor points ignored by this Committee. According to the author, his attempt has been to fill in "the important gaps in the tentative scheme given in the final report of the Bombay Textile Labour Enquiry Committee." (P. 1.) The object which the author has set for himself and the bare 132 pages of the book, which are covered by the text, alike debar a full exposition of the whole matter. The *Contents* of the book include only two topics, *viz.*, Benefits and Financial Resources, together with some introductory and general observations in, the beginning and end of the book respectively. Evidently the contents are incomplete and do not deal with such major and important matters as Administrative Machinery, Medical Organisation, Disputes and Offences; and certain minor but equally important subjects like preventive treatment and activities, the problem of malingering, the card system, the problem of the sparsely populated industrial areas, the provision of institutional and specialised treatment and a whole host of other vital matters which present real and considerable difficulties. Problems of residential restrictions, investments, etc., have merely been touched upon and not discussed threadbare and at many places the treatment seems to be rather colourless.

The problem of sickness insurance as related to this country and germane at the present moment, is the drafting of a suitable Sickness Insurance Scheme and this task resolves itself into three main groups:

(i) The formulation of a scheme of contributions and benefits satisfying the triple objects of (a) affording adequate and satisfactory degree of benefits to workers; (b) taxing the industry according to its capacity to pay; and (c) taking due care that the morbidity experience assumed in framing the scheme bears out in practice in future as nearly as possible. This task obviously requires some actuarial guidance and expert statistical knowledge.

(ii) The drafting of the proposals of diverse nature and character in such a way as to minimise the chances of leakages, malingering, disputes and offences, evasion, etc., fully bearing in mind the peculiar characteristics of industrial labour in India, its problems and the ways of solving them, as well as the existing industrial legislation, and ensuring that the said proposals do not create new problems but, if possible, incidentally solve some of the old ones.

(iii) The erection of efficient general, medical and supervisory machinery for the proper administration and management of the fund, ensuring proper enforcement of the Act and its administration on efficient lines, in association with the operation of the necessary checks and balances.

The book under review seems to attack the first part of the above task only but since it has been written within certain limitations, it does not deal with this aspect of the problem either fully or independently. The nature of the book restricts its utility to the reader, which is a sort of an academic essay setting out the main principles of sickness insurance with special reference to this country. It is likely to be found useful by practical businessmen or busy administrators who have little time to delve into the mass of precious literature existing on this subject. But it appears that the author has not had the opportunity of giving to this problem deep and careful thought and his conclusions, views and statements excite comments and contradictions.

To turn to this aspect of the matter, we may well begin with the problem of the scope of sickness insurance, which has been made much complicated by so many borderline cases and it is of interest to examine some of the views of the author in this regard. One of these is the question of the contract labour. The author suggests (pp. 22-23) that the vexed question of contract labour can be solved by excluding this type of labour from the scope of the scheme altogether. But, to our mind, such an escapist policy would be fatal to the whole scheme. For if this suggestion is adopted, what would be easier for the employer intent on evading the scheme than to employ all or most of his labour on the contract basis and thus nullify the entire scheme without ever coming into the grips of the law? The problem of contract labour is no doubt a classically difficult affair and not even in Great Britain has it been satisfactorily solved and would have to courageously faced by us in this country.

The author's suggestion regarding the non-imposition of any upper income-limit is also difficult to understand. He is against such

a proposal because the workers getting low wages are very few and the limit, if any, would be arbitrary. Now, whether the workers so excluded would be few or many would partly depend upon how we define the term "worker," which has not been done anywhere in this book. And, in any case, the smallness of the number sought to be excluded is no argument in favour of their inclusion. It is, again, not quite correct to say that income-limit which can be placed would be arbitrary. It is, in fact, a well-known principle of social insurance that those who are able, by virtue of their economic position, to take their own care need not be included in the scheme and those earning larger incomes should be excluded from its scope.

The author further suggests that there should not be any age limits because (i) there is no general system of contributory old age pension in this country and (ii) "children are still being employed in factories." As regards the absence of an old age pension scheme, it has to be said that there are so many other things which are also absent and which the workers must get but which are not available to them. But does that mean that they should be available to them under sickness insurance? If this scheme is made to take care of other forms of calamity foreign to its purpose, it would lead to the frustration of both forms of coverages, of the former because the carriage of other risks might lead to fund's insolvency, of the latter because it might not be properly cared for. As regards the second point, we fail to understand how the employment of children disables us from imposing age-limits.

The author's views regarding the inclusion or exclusion of unemployed persons seem to have been arrived at without much thought. He suggests that unemployed persons should also be included in the scheme in case they pay the whole contributions themselves. This viewpoint cannot be appreciated for their exclusion from the scheme is warranted by very good reasons. The unemployed workers who can keep the insurance alive while unemployed would be very few. And what would really happen would be that a worker who has some saving would be tempted to keep insurance alive but very soon he would discover that he is unable to keep it alive further. This provision would thus lure him to purchase a policy which is almost sure to lapse! Moreover, if the unemployed persons are permitted to draw benefits under the scheme, without the working of unemployment insurance simultaneously, the unemployed workers would manage to fall sick by the stroke of some *malade imaginaire* and draw benefits, and in this manner sickness insurance would soon become unemployment insurance whose burden it could not possibly carry. Besides, there are administrative reasons, like the difficulties in the collection of contributions, which preclude the inclusion of the unemployment in the scheme.

The views of the author regarding age-limits, income-limit and unemployed persons err on the side of generosity and are wide of the ideal laid down by himself, *viz.*, that "every conceivable precaution must be taken to safeguard the sickness insurance funds from the inception of the scheme." (Pp. 26-27.)

The author also observes on p. 42 that "Dependants of the insured

persons will have to be excluded from the scheme *as in other countries*, at least in the initial stages." (Italics ours.) Now, if by this the author means that in other countries dependants are excluded from the medical benefit part of the scheme, he commits a grave error of fact. In Austria, Bulgaria, Czechoslovakia, France, Germany, Great Britain, Hungary, Lativia, Lithunia, Luxemburg, Norway, Poland, Portugal, Roumania, etc., benefit is provided to the dependants of the insured persons on a compulsory or optional basis. (See *Compulsory Sickness Insurance*, I. L. O., M 6.) The International Labour Office observes in this connexion, "A new conception of insurance has appeared of a genuinely social character. The insured person is no longer placed in a different class from his family . . . ." (*Ibid.*, p. 327 ff.) Again, "Even before the war, sickness insurance schemes, especially those in Central European countries, had introduced medical benefits for the dependants of insured persons . . . The movement for the introduction of family medical assistance grew in strength during the years following the war." (*Ibid.*, pp. 328-329.)

Leaving aside the question of the scope, the "general hypothetical formula for determining the contributions," the evolution of which is regarded by the author as an important object of writing the book, seems to be unsatisfactory. This formula is C As. 3 [3 plus (.136) w], where C = monthly contribution and w = average daily wage in annas of the workers in a particular industry at a particular centre. This formula seems to be made of tissues of confusion. The author accepts the view of the Bombay Labour Textile Enquiry Committee that the flat rate benefit is the best form of cash benefit (p. 108) and also the said Committee's recommendation of Re. 1 *per capita* total contribution. It is then strange as well as contradictory to express the contribution as a proportion of the wage just a few pages after! If it is the flat rate which appeals to the author, we fear he does not seem to have a clear notion about it. On p. 9 he states that the "total monthly contribution per insured person *including* the administrative expenses comes to...." and again repeats (p. 116) that "the total monthly contribution *including* the expenses of administration." It is difficult to make sense out of this expression. At best it is confusing and illogical. For by no stretch of imagination can monthly contributions be regarded as items of expenditure, or administrative expenses as items on the income side; nor can an item of income include an item of expenditure in a sensible sense. However, the author postpones the explanation of the formula to Chapter IV but that Chapter does not make the reader any the wiser. For nowhere does he state the rationale of the formula, how has it been arrived at, what is its justification, what is the scope of its application and what is after all its need and necessity. Even the object which this formula is meant to serve is not clear; for if it seeks to determine flat rate contributions, that determination has to be made in a different manner. The author uses it in arriving at a system of the distribution of costs as well. The following is the upshot of his deliberations about the distribution (explained on pages 9-10 and repeated on p. 117):—(i) 1|15th of contribution to cover administrative expenses. (ii) 7 as. per head for medical benefit. (iii) As. 7|3 (.136)× w for cash benefit. (iv) 1|9 for Reserve Fund. (v) Balance to contingencies up to a maximum of 2|45th of

total contribution. One fails to find any justification or appropriateness of suggesting a distribution partly on flat rate, partly on a percentage basis as related to total contribution and still partly on a proportional relationship to wages! The author here defies the arithmetic of the situation and exhausts all the three ways in which this distribution can be made in one single attempt. Is there any reasonable guarantee that the total of all these five items would be equal to unity?

Again, on p. 69 the author states that though the cost of medical benefit would be constant for all centres and industries, the cost of cash benefit would differ from centre to centre and industry to industry because of variations in daily wage. On page 73, he states that "the amount to be allotted for cash benefits should be $7.615 \times w|2$ per insured per annum." There is no ground for supposing that medical benefit would involve the same cost everywhere, and much less for assuming that the cost of cash benefit would vary so much, if once the flat rate principle is accepted. As a matter of fact, the case would be just the opposite.

The author does not give even a hint regarding his conception of the right degree of centralisation in the management of the fund, on which so many things basically depend. Should there be one fund on an all-India basis, or there should be separate funds industry-wise or centre-wise or industry- as well as centre-wise? If he favours the former, it runs counter to wat he discusses in Chapter IV and his pet formula; if any of the latter propositions appeals to him, it runs counter to the very spirit of social insurance and the theory of probability on which the whole structure of insurance is built up.

The author rightly states that the flat rate benefits are most suited to Indian conditions at this stage but the reason which he gives for his view is that it would "enable him (*i.e.*, the worker) to maintain his standard of living during periods of incapacity." Really if this is the object which is to be fully kept in view, it is difficult to imagine how can this be secured without some degree of wage categorisation and differentiation, though in the beginning this must be as simple as possible. The author also misunderstands the purpose of waiting days for he thinks that they are provided because "the cost of administration and supervision of such claims (*i.e.*, claims for short disposition) is often prohibitive and out of all proportion to the services rendered to the insured persons." The real purpose of waiting days, as a matter of fact, is to make an economy in the payment of cash benefit by thus summarily turning down all claims for illnesses lasting for less than 3 days or for the first 3 days of longer sicknesses. The provision of such a waiting period can be depended upon to support a morbidity figure from 1 to 2 days more than the scheme of benefits and contributions would otherwise do. It is therefore a recognised and useful tool whereby the contributions from various parties are kept within moderate limits. So far as administration and supervision are concerned, once the proper machinery for these purposes is set up, its capacity would be found to be rather elastic, as it obeys the law of diminishing cost, especially when it would have to function in respect of medical benefit part of the scheme all the time.

Regarding the morbidity statistics, the author says in the *Preface*

that experience of other countries can be used in India (p. ii). This view seems to have found a certain degree of currency but should be revised or at least its limitations should be clearly realised. It is well known that workmen's accident statistics do not admit of international comparison and adoption. The International Labour Office a few years ago observed, "In no branch of labour statistics are differences in the scope and nature of statistics so evident as in that of industrial accidents and in no branch are international statistical comparisons more difficult." The 11th International Congress of Actuaries which met in July, 1937, in Paris also came to the same conclusion. What is true of industrial accident statistics is very much likely to be true of industrial morbidity experience as well and too much reliance must not be placed on international morbidity figures for evolving a basis for sickness insurance scheme for this country.

Such are the points to which we would like to draw the attention of the author; and while we do not underestimate the value of the book for those for whom it has been written, we would suggest its careful revision. In author's own view, the scheme described by him in this book is very simple, sound and flexible in character. (P. 9.) However, the Government of India take the other view and as they expressed themselves in the Memorandum presented by them before the Third Conference of Labour Ministers, "this scheme (*i.e.*, the Scheme of the Bomaby Textile Committee) might however be considered *somewhat too complicated.*" (Italics ours.) It has also to be considered if a scheme based on the assumption of 9 days' sickness and 7|16 of expenditure on medical benefits and administration would come out in practice to be as sound as it should be. The allocation of only 6½ % of total contributions to administration also seems to be rather niggardly. It seems that the contributions per male adult worker would have to be pushed beyond Re. 1 p.m. if the scheme is to provide not only an adequate quantity of cash and medical benefits but also to have an efficient system of administration besides proper safety margins and what might be called 'hidden reserves' here and there which are absolutely essential in the initial working of the scheme. In order to be flexible, the scheme would have to take into account the future programme not only of sickness insurance but also of social insurance in general.

Despite all that has been said above in a constructive spirit, we recommend this book to our readers for it is informative and is the first book of its kind published in this country and is likely to awaken interest, thought and authorship in this new direction. The printing is neat and get-up nice. The author is to be congratulated for making a beginning in the study of this new and important measure of labour welfare.

A. N. AGARWALA.

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[To be reviewed.]

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[To be reviewed.]

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[Reviewed in this issue.]

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[Reviewed in this issue.]

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PROPOSALS FOR AN INTERNATIONAL CLEARING UNION. (THE BRITISH SCHEME). Published in 1943 by the Manager of Publications, Delhi. Pp. 16. Price annas 4.

(These two pamphlets give details of the post-war currency schemes as sponsored by the British and the American Governments. As is well known by now the British Scheme envisages the setting up of an International Clearing Union and the *bancor* will be the international monetary unit. The American Scheme provides for a Stabilization Fund and makes *unitas* the monetary unit and this is made equal to 137 1/7 grains of fine gold.)

LARGE-SCALE INDUSTRIES IN INDIA (STATISTICAL TABLE WITH AN EXPLANATORY NOTE). Published in 1943 by the All-India Manufacturers' Organisation, Bombay. Pp. 4. Price annas 4.

THE IRON AND STEEL INDUSTRY IN INDIA. Published in 1943 by the All-India Manufacturers' Organisation, Bombay. Pp. 20. Price annas 8.

(These are the first two pamphlets, and more are promised, by the A.I.M.O. whose aim is not to act as a a piece of orginal research for the specialist but to make industries and industrial topics clear for the ordinary citizen to whom we strongly recommend them. These pamphlets are written in a clear and simple style and are very informative.)

FINANCIAL BURDEN OF THE WAR ON INDIA, by C. N. Vakil. Published in July 1943 by the Author at the School of Economics and Sociology, University of Bombay. Pp. 140. Price Rs. 4.

(This book studies the Government of India's war budgets, the loan policy of the government, and the problem of inflation. Prof. Vakil points out that in the first 3 years of war the budgetary deficit is shown only at Rs. 100 crores because the expenditure to the extent of Rs. 555 crores incurred on behalf of the British Government is not included in the Budgets. It is this 'concealed' deficit which is responsible in a large measure for the inflation in India. The book contains the author's revised statement of the problem of inflation and, we are glad to say, the re-statement is crouched in more careful language than that used in the earlier pamphlet and gives a balanced view of the situation. The chapters on Public Debt and the sections on Commercial Services are especially refreshing and informative. We recommend the book to students of current economic problems though we cannot help feeling that, in spite of the higher costs due to the war, a lower price could have been charged for the book.)

INDIAN ECONOMIC ASSOCIATION

26TH CONFERENCE

The 26th Annual Conference of the Indian Economic Association will now be held *in December 1943 at Madras.* This further postponement of the Conference from April to December has been decided upon in view of the difficulties expressed by the authorities of the University of Madras about holding the Conference in April. The exact dates of the Conference will be announced later.

The subjects selected for discussion at the Conference are the same as already notified, namely:

(*a*) Economic Controls in India during the War,
(*b*) Regulation of Banking in India,
(*c*) Recent Structural Changes in the Capitalistic Economy,
(*d*) Currency Expansion during the War (current topic).

In view of the change in the dates of the Conference, the time for submission of papers is extended to 15th September, 1943, and members are requested to send their papers, on or before that date, *direct to the President,* Dr. B. V. Narayanaswamy Naidu, Principal, Pachaiappas College, Kilpauk, Madras, and he will inform them about the acceptance of their papers.

In view of the paper shortage in the country, it is not quite certain whether it will be possible for the authorities of the *Indian Journal of Economics* to print a Conference Number, and in fact, members who had already submitted papers were requested to get them printed on their own account. Attempts are, however, being made to secure the necessary paper and if the paper is secured, it may be possible to have a Conference Number printed. Members will be informed in due course whether it has been found possible to arrange printing of a Conference Number or whether they will be requested to arrange for the printing of their own papers.

In case it is possible to print the Conference Number, it must be pointed out that the Executive Committee have decided upon the following sliding scale arrangement regarding recovery of the cost of printing the papers from the members contributing papers. These scales will be applicable to the papers to be submitted to the 26th Conference.

First 8 pages	...	free
On the excess of pages from		
9 to 10	...	Rs. 2 per page.
10 to 15	...	„ 3 „ „
16 to 20	...	„ 4 „ „
21 pages and above	...	„ 5 „ „

The page will be the printed page of the Journal for purposes of calculation and contains on an average 400 words. Members are also informed that papers intended for the Conference should be accompanied by summaries not exceeding two pages in print of the Journal.

—*From the Secretary.*

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THE ROLE OF VELOCITY OF CIRCULATION IN THE PRESENT RISE OF PRICES

BY

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I

One regular feature of any considerable rise in the general price level is the reluctance of many in authority to emphasize the casual relationship between the increase in the quantity of money and the rise in prices. This was the case in the great German inflation following the First World War,[1] it was the case in other European countries which experienced inflation at that time,[2] and there are evidences of it in India today.[3]

A factor which must encourage this view is the empirical observation that the increase in the money supply

[1] See C. Bresciani-Turroni, *Economics of Inflation*, pp. 42—47, for abundant illustration. "German Press, Government, and many economists held that the inflation was not owed to the increase in money supply . . . The Reichsbank, for example, indicated in its annual report, as a cause of the increasing issues of paper money, the rise in prices, provoked by the scarcity of goods." How faithfully history repeats itself, this time in India, even to the use of the same phrase.

[2] See Gustav Cassel, *Money and Foreign Exchange After 1914*, p. 122.

[3] The newspapers and the financial magazines are fruitful sources of arguments of this kind. As an example, see the presidential address before the Bombay Shroffs' Association, quoted in *Capital* of January 21, 1943.

and the increase in prices do not proceed equally and together.[4] The contours of the curves showing index numbers of prices and index numbers[5] of notes in circulation are roughly similar. That is, moderate increases in note circulation have been accompanied by moderate increases in prices (with the suggestion of a two-months' lag), and large increases in note circulation by large increases in prices. But the percentage increases have not been equal. On the base of August, 1939=100, note circulation stood at 413 by April, 1943, while cost of living of Bombay Industrial Workers, shifted to August, 1939=100 base, stood at 214.

This absence of a *pari passu* relationship between supply of money and prices does not call into question the validity of the equation of exchange—indeed that equation is an identity. That equation shows prices as a function of velocity of circulation and volume of transactions as well as of quantity of money, all of which are free to vary. Nor is this absence of equal percentage increase an indictment of the quantity theory of money except in its most rigid form, largely discarded, that a given percentage rise in quantity of money will cause the same percentage rise in prices. Even the strict quantity theorists left some room for escape from this rigidity by holding that equal percentage change in the two need not occur in periods of transition,[6] a description to which the present period assuredly answers.

Rather, the disequivalence between the increase in money supply and the increase in prices directs attention to the other variables in the equation of exchange, velocity

[4] Helfferich, chief among the German economists who denied that increase in the quantity of money was responsible for the inflation had recourse to this argument. See the sixth edition of his work, *Das Geld*. For a summary in English, see Bresciani-Turroni, *op. cit.*, Ch. II.

[5] Since index numbers of prices are percentages expressed to a fixed base, the note circulation should be put into the same form for comparison with price changes, that is, into percentages expressed to a fixed base. When these are plotted on a logarithmic scale, the slope of the curves will show rates of increase of the index numbers. This *rate* of increase in the index number of note circulation was roughly twice that of prices in the first half of 1941, three times in the second half of 1941, twice in the first half of 1942, and roughly the same in the second half of 1942 and the first half of 1943.

[6] See Irving Fisher, *Purchasing Power of Money*, Ch. IV.

of circulation of money and volume of transactions. Of these, the velocity of circulation of money offers the greater promise for an explanation of extreme inequalities between increase in money supply and increase in prices. Let us consider the actual case in India. Between the beginning of the present war and April, 1943, the note circulation had, roughly, quadrupled and prices had, roughly, doubled. If the volume of transactions were solely to account for this disparity between quantity of money and prices, that volume would have had to double. That this should happen in the space of three and one-half years in India is exceedingly unlikely. The volume of transactions is compounded of two quantities: volume of goods and their circulation from the first stage of production to their last purchaser. The volume of goods rarely exhibits a doubling or a reduction by one-half in the space of a few years. In the downward direction such movement in India would be limited by starvation and in the upward direction by the inelasticity of production in the short period. Given the volume of goods, their velocity of circulation is capable of great and rapid changes, through hoarding of goods, which operates to decrease the velocity of circulation of goods just as the hoarding of money operates to decrease its velocity of circulation, and through feverish bullish speculation which operates to increase the velocity of circulation of goods. The integration of industry and changes in the number of middlemen are probably influences that operate on the volume of transactions rather more slowly. After making allowance for the magnitude and speed of all these combined factors and acknowledging that among these forces some would be working in an opposite direction from others and so offsetting them,[7] it seems convincing that volume of transactions will not play as large a rôle in explaining disparities between increases in the quantity of money and rise in prices as will be played by the velocity of circulation of money.

The velocity of circulation of money, especially when we think of it as the reciprocal of k in the cash balances

[7] An increase in production would increase the volume of transactions, but hoarding of commodities would decrease it. Integration of industry would decrease volume of transactions but an increase in merchandizing services would increase it.

equation,[8] the proportion of their income which the people choose to hold in cash, is the result of volition. As such it is influenced by psychological forces of which great and sudden changes in intensity are characteristic in critical times.[9] It is true that decisions concerning hoarding of and speculation in commodities are influenced more by psychological than by technical considerations. But whereas there may be these operations in certain commodities, changes in velocity of circulation of money have the entire 'money side' of the equation as their field of operation.

From historical accounts of previous inflations a rough pattern for the velocity of circulation emerges. In the early phase of the increase in the money supply the velocity of cirulation usually falls. The reasons for this will be sought later. In the period, if the volume of transactions is constant or does not fall greatly,[10] the price level will rise by less than the increase in the quantity of money. If the increase in the quantity of money is long continued and extreme, and if it is attended by a certain concatenation of events of the kind that makes the inflation politically expedient, the velocity of circulation will rise. (This is because the people become uncertain concerning the value of money, they become tardily aware of the nature of the inflation and seek hurriedly to turn money into commodities) In this phase prices rise faster than the quantity of money.

An indirect measure of the confidence of the people in the money, and hence, of velocity of circulation is provided by the movement of the total real value of the

[8] The equation of exchange and the cash balance equation of Marshall and the Cambridge economists would yield the same result in the study undertaken here. The cash balance equation has the advantage that it shows cash balances, and therefore, velocity of circulation of money, as the result of decisions, volition. But the equation of exchange has the practical, and in this case, decisive, advantage, that its elements are those which it is easiest to determine statistically. Keynes, formulator of alternative equations, concedes this. See *Treatise on Money,* Vol. I, p. 235.

[9] In the *General Theory* Keynes has emphasized the incentives to liquidity, a subject which is not the exact equivalent of the income velocity of money but is closely connected with it, as highly psychological in character. See Chapter 15.

[10] If the volume of transactions rises, the tendency of prices to rise by less than the quantity of money will be strengthened.

money in cirulation. The total real value of money circulation could be measured by the gold it would purchase in the times when a body of nations were on the gold standard, or by its value in terms of a foreign currency which has not experienced great changes in value, or by its purchasing power over commodities within the country as measured by domestic price indices. Since gold price in India, owing to special speculation together with the loss of its former place in world monetary sphere, is less significant as an indicator of real value of money than a larger group of commodities, and since the rupee is not free to vary with the pound, nor, because of this relationship, with the dollar, only the third of the suggested methods is available. We can find the real value of the note circulation by dividing the nominal value by a measure of the general price level or the closest approximation available.

On the assumption that real income is not changing radically, a rise in the total real value of money supply will indicate a fall in income velocity of money, that is the number of times a unit of money becomes income in a unit of time, while a fall in the real value of money supply will indicate a rise in the income velocity of money. This is perhaps more apparent from the cash balances equation[11] than from the equation of exchange. The k of the cash balances equation, the proportion of total income which the people choose to hold in cash, is the reciprocal of V in the equation of exchange when V is conceived as income velocity, the number of times a unit of money becomes income in a unit of time, rather than as transactions velocity, the number of times a unit of money changes hands in making transactions per unit of time. This proportion k multiplied by aggregate income gives the total real value of the money supply. If V decreases, its reciprocal k increases, and the real value of the money supply increases.

[11] The cash balances equation is usually written by Pigou, Robertson and the Cambridge economists who have made the most use of it as $P = \frac{kR}{M}$ where P is price, k the proportion of total income which the people choose to hold in cash, R total income during a unit of time, and M the quantity of money. For a discussion of the equation and its relation to the equation of exchange see Marshall, *Money, Credit, and Commerce*, Ch. IV; Pigou, *Essays in Applied Economics*, Ch. XVI; Robertson, *Money*, Ch. II; Keynes, *Treatise on Money*, Vol. I, Ch. XIV.

Table I shows the real value of the note circulation in India: (A) measured in terms of purchasing power over commodities at wholesale prices, and (B) measured in purchasing power over commodities at retail prices. The wholesale price index of the Economic Adviser to the Government of India has been used for A, the cost of living index for Bombay Industrial Workers, with the base shifted to August, 1939, has been used for B.

TABLE I

	Nominal value of note circulation* (Crores of rupees)	Real Value (A) According to wholesale prices (Crores of rupees)	Real Value (B) According to cost of living. (Crores of rupees)
1939			
Aug.	161·9	161·9	161·9
Sept.	191·4	176·9	189·5
Oct.	200·2	176·7	194·3
Nov.	210·7	167·6	202·5
Dec.	219·0	158·9	202·8
1940			
Jan.	227·2	162·0	208·4
Feb.	226·6	173·8	211·8
Mar.	227·5	180·2	216·9
Apr.	228·1	180·0	217·2
May	230·7	186·3	217 6
June	240·0	210·3	226·4
July	233·1	205·8	215·9
Aug.	233·4	211·4	214·1
Sept.	221·2	200·2	206·7
Oct.	219·1	196·0	202·9
Nov.	219·3	192·3	203·0
Dec.	225·3	195·6	206·7
1941			
Jan.	230·3	200·8	207·5
Feb.	235·1	209·7	208·1
Mar.	238·9	212·7	211·4
Apr.	250·7	213·0	217·9
May	256·2	215·7	220·8
June	261·2	206·6	225·1
July	255·8	189·2	213·2
Aug.	257·6	182·7	206·2
Sept.	265·9	184·9	216·2
Oct.	274·5	192·1	230·7
Nov.	285·3	195·9	237·7
Dec.	314·5	219·5	255·7

* As at the middle (approximately) of each month. The figures are taken from weekly reports of the Reserve Bank of India.

	Nominal value of note circulation (Crores of rupees)	Real value (A) According to wholesale prices (Crores of rupees)	Real value (B) According to cost of living. (Crores of rupees)
1942			
Jan.	330·5	229·9	354·2
Feb.	350·1	235·9	271·4
Mar.	278·9	262·8	291·5
Apr.	408·2	279·4	311·6
May	427·9	288 3	317·0
June	439·0	289·5	302·8
July	444·6	278·1	277·9
Aug.	470 7	294·2	294·2
Sept.	490·9	298 8	303·0
Oct.	511·7	298·5	312·0
Nov.	537·8	303·8	316·4
Dec.	558·2	302·2	311·8
1943			
Jan.	589·4	...	305·4
Feb.	611·7	...	313·7
Mar.	639·3	...	322·8
Apr.	669·3	...	312·7
May	700·6		

With the exception of some months the real value of the note circulation has increased month by month. The tendency over the whole period is unmistakably toward increased aggregate real value. Apparently India is still comfortably within the decreasing velocity phase of the inflation cycle.

II

We can now attempt to measure velocity of circulation directly and to bring velocity of circulation of deposit currency into consideration along with velocity of circulation of note currency.

According to Fisher's elaboration of the equation of exchange to include deposit currency, we have the following equation of exchange in the base period, which is for this problem August, 1939, the month before the outbreak of war :

$$P_0T_0 = M_0V_0 + M_0'V_0' \quad . \quad . \quad . \quad . \quad (1)$$

where P is average price, T the total number of transactions, M the quantity of money, V its velocity of circulation, M′ the quantity of deposit currency, V′ its velocity

of circulation. The subscripts indicate time. In the next period, September, 1939, in this problem, we would have the equation of exchange:

$$P_1T_1 = M_1V_1 + M_1'V_1' \quad . \quad . \quad . \quad . \quad . \quad (2)$$

From these two equations we have:

$$\frac{P_1T_1}{P_0T_0} = \frac{M_1V_1 + M_1'V_1'}{M_0V_0 + M_0'V_0'} \quad . \quad . \quad . \quad , \quad (3)$$

This may be written as:

$$\frac{P_1T_1}{P_0T_0} = \frac{\frac{M_1}{M_0}\frac{1}{V_0}^{(V_1)} + \frac{M_1'}{M_0'}\frac{1}{V_0}^{(V_1')}}{1 + \frac{M_0'V_0'}{M_0V_0}} \quad . \quad . \quad . \quad (4)$$

$$\text{or} \qquad V_1 = \frac{V_0\left(\frac{P_1T_1}{P_0T_0}\right) + \frac{M_0'V_0'}{M_0}\left(\frac{P_1T_1}{P_0T_0}\right) - \frac{M_1'V_1'}{M_0}}{\frac{M_1}{M_0}} \quad . \quad . \quad . \quad (5)$$

The equation is put in this form because under the limitations of available statistical data we know some of the elements as absolute quantities, and either know or can estimate others as ratios between their values in the base period and a subsequent period. M, M′ and V′ we know as absolute quantities. We never know P, "average price," but price indices give us the ratio $\frac{P_1}{P_0} \cdots \frac{P_n}{P_0}$. We seldom know the total number of transactions, T, but we are sometimes in a position to estimate the total number for a given time period, as a relative of the total number in the base period. This gives $\frac{T_1}{T_0} \ldots\ldots \frac{T_n}{T_0}$. Thus by substituting absolute quantities for M, M′, and V_1', by using price indices for $\frac{P_1}{P_0}$ and by estimating $\frac{T_1}{T_0}$, we are able to calculate $\frac{V_1}{V_0}$, the ratio of the velocity of circulation of money in period one, and of course, successive periods, to the velocity of circulation in the base period. Velocity of money may be assigned the index number 100 for the base period, August, 1939, and $V_1 \ldots\ldots n$ calculated for successive periods.

The sources of the statistical date are as follows :

$\frac{P_1}{P_0}$—Ideally, we require a measure of the general price level. Since we do not have this, two sets of measures of relative velocity have been calculated, one using the index of wholesale prices of the Economic Adviser to the Government of India, the other using the cost of living index of Bombay Industrial Workers. Bresciani-Turroni has shown that the former may be considered an approximation to the relative movements of transactions-velocity of money, while the latter is a rough approximation to the relative movements of income velocity of money.[12]

$\frac{T_1}{T_0}$— This is the point at which we are thrown altogether upon an estimate. The physical volume of transactions is the product of the quantity of goods times the number of times they are exchanged in a unit of time. The volume of goods has almost certainly increased. The *Capital* Index of Industrial production, though manifesting falls as well as rises, has shown an upward trend over the period. The Grow More Food Campaign is reputed to have brought eight million new acres under cultivation.

The velocity of circulation of goods is more difficult to assess. At least two forces have operated to decrease it : the boarding of stocks of goods, and the consumption of much of the national dividend by the military. The latter condition probably causes a dimunition of number of exchanges between producer and ultimate consumer by contracts placed directly with producers. Bullish speculation in commodities operates in the other direction, to increase velocity of circulation of goods. The estimate ventured here is that the two forces making for decreased velocity of circulation of goods are stronger than the one making for increased velocity, and that on balance the decreased velocity offsets the increased volume of goods. We will go on the admittedly large assumption that the quantity of goods exchanged is approximately the same over the period. Of course the same equation and method of analysis are available for more exact estimates of volume of transactions wherever more data or better judgment make this possible.

[12] *Op. cit.*, pp. 167—170.

M—For quantity of money, the notes in circulation at the approximate middle of each month as published in the Reserve Bank of India statements have been used. Rupee notes, rupee coins, and small coins are omitted for lack of monthly data. Their volume is very small compared with notes in circulation, though their greater velocity of circulation causes them to perform a larger per cent of the "Money Work" than the proportion which they constitute of total money supply. Notes in circulation include notes held in the scheduled banks as their cash but exclude notes held in the Banking Department of the Reserve Bank. Fisher maintains that neither of these should be included in M since they are used for banking operations and not for commercial purchases.[13] The adjustment of notes in circulation for these held in the scheduled banks would seldom necessitate a correction of over 3%, and the error in their inclusion is in the opposite direction to the error involved in the omission of rupee notes, rupee coin, and small coin from the quantity of money.

M′—For quantity of deposit currency the demand liabilities of the scheduled banks at the approximate middle of each month have been used. Fisher includes only demnad deposits in his M′.

V′—This element is calculated by dividing the monthly bank clearings (as reported for the first four weeks in the month and adjusted to the basis of 30 or 31 days) by the demand liabilities at the middle of the month, which may be taken as a rough average of demand liabilities for that month. These data are available from the weekly reports of the scheduled banks' consolidated position. This method of obtaining V′ is not strictly correct, since average demand liabilities for the month should be divided into bank-debits, which include internal clearings within a bank as well as clearings between banks. Obviously, a cheque which is paid into the same bank upon which it is drawn constitutes a transaction financed by deposit currency as surely as if the cheque were paid to a depositor in another bank and passed through the clearing house. Bank clearings statistics are available to us, while bank-debits, the American term for internal clearings, are not. If internal clearings have changed in the

[13] *Op. cit.*, p. 280.

same proportion as external clearings, their omission would not change the index number of velocity of circulation of deposit currency derived in the manner indicated.

Substitution of values in the equation (5) reveals a notable characteristic of the combination of these several factors for India. The first term in the numerator of the right-hand side of the equation $V_0\left(\frac{P_1T_1}{P_0T_0}\right)$ dominates the equation. The difference between the second term in the numerator, $\frac{M_0'V_0'}{M_0}\left(\frac{P_1T_1}{P_0T_0}\right)$ and the third term of the numerator $\frac{M_1'V_1'}{M_0}$ is never large enough relative to the denominator of the right-hand side $\frac{M_1}{M_0}$ to alter significantly the value for V_1, found from $\frac{V_0\frac{P_1T_1}{P_0T_0}}{\frac{M_1}{M_0}}$. This means that we can determine the ratio $\frac{V_1}{V_0}$ approximately by considering only prices, and the quantity of notes in circulation, leaving the volume of deposit currency and its velocity of circulation out of account. This need not be the case everywhere nor in India always. In a situation in which the "money work" done by M′ in a month were greater than M, the third term in the numerator of the equation would be a number equal to the multiple by which it were greater, rather than a fraction, as is the case in India where payments in cash are so much larger than payments by cheque. I have calculated the index number of velocity of circulation of money both taking the velocity of circulation of deposit currency into account and leaving it aside and find that taking it into account never changes the index number of velocity of circulation by as much as one point on a base of August, 1939 = 100. Since this is much less than the probable error of index numbers and the error resulting from the omission in the statistical data, the simpler calculation suffices for an approximation to variations in the velocity of circulation of money.

Even though the velocity of circulation of deposit currency is not employed in calculating velocity of circulation of money, it is a valuable measure to complement the

measure of variations in velocity of circulation of money. It makes possible comparisons between the two. More over, the general downward movement in the velocity of circulation of deposit currency, derived from the ratio of monthly clearings to average monthly demand liabilities, and independent of our use of price levels and assumptions concerning volume of transactions, affords some confirmation that the results obtained for velocity of cirulation of money are at least in the right direction.

Table II shows: A. Variations in the velocity of circulation of money based on wholesale price index; B. Variations in the velocity of circulation of money based on cost of living index; C. Variations in the velocity of circulation of deposit currency.

TABLE II

Variations of the Velocity of Circulation of Money and of Deposit Currency in India.

(August 1939=100)

A. Of money, Based on Wholesale Prices

	1939	1940	1941	1942	1943
Jan.	...	98	80	70	...
Feb.	...	93	77	67	...
Mar.	...	90	76	62	...
Apr.	...	90	76	58	
May	...	88	75	57	
June	...	77	78	57	
July	...	78	86	58	
Aug.	100	77	89	55	
Sept.	92	81	88	54	
Oct.	92	83	84	54	
Nov.	96	84	83	53	
Dec.	102	83	74	54	

B. Of Money, Based on Cost of Living

	1939	1940	1941	1942	1943
Jan.	...	78	78	64	53
Feb.	...	76	71	58	52
Mar.	...	75	77	56	50
Apr.	...	74	74	52	52
May	...	74	73	51	
June	...	71	72	54	
July	...	75	76	58	
Aug.	100	76	78	55	
Sept.	84	76	75	53	
Oct.	83	80	70	52	
Nov.	80	80	68	51	
Dec.	80	78	63	52	

*C, Of Deposit Currency**

	1939	1940	1941	1942	1943
Jan.	...	169	116	103	85
Feb.	...	140	105	104	74
Mar	...	135	118	107	92
Apr.	...	146	102	159	18
May	...	145	111	77	
June	...	119	112	70	
July	...	109	116	73	
Aug.	100	296	109	67	
Sept.	131	100	107	63	
Oct.	139	90	103	70	
Nov.	144	98	111	79	
Dec.	162	102	105	97	

All the series fall, velocity of money falls more than velocity of deposit currency. The velocity of deposit currency is characterised by irregular and seasonal fluctuations which can be explained by the timing of tax payments, bank holidays, and by the general seasonal character of business. The base month, August, 1939, happens to have had an uncommonly low velocity of circulation of deposit currency, a fact which makes the index numbers appear higher than otherwise would have been the case. The impact of the war seems to have increased velocity of deposit currency for several months, immediately after outbreak of war. With the development of banking in India, the secular tendency is probably in this direction, though other forces incident to the war and the increase in the supply of money have offset it. Taking the entire period, velocity of circulation of deposit currency, like that of money, moves fairly consistently and very considerably downward.[14]

* In absolute figures the velocity of circulation of deposit currency per month is:

Jan.	...	1·747	1·202	1·064	·861
Feb.	...	1·443	1·085	1·080	·762
Mar.	...	1·403	1·229	1·107	·952
Apr.	...	1·506	1·055	1·645	·836
May	...	1·502	1·149	·793	
June	...	1·272	1·161	·721	
July	...	1·122	1·198	·757	
Aug.	1·034	·988	1·122	·695	
Sept.	1·356	1·032	1·109	·653	
Oct.	1·436	·926	1·060	·723	
Nov.	1·485	1·010	1·150	·819	
Dec.	1·671	1·050	1·186	·999	

[14] *Op. cit.*, p. 168.

III

We must now seek to provide an explanation for the marked fall in velocity of circulation. First, it should be said that there is precedent for such a fall in the experience of European countries during the First World War. On Bresciana-Turroni's calculations, velocity of circulation of money in Germany, taking 1913 as 100, fell to 92 in 1914, 87 in 1916, 61 in 1918 and to 43 in June 1919, before it started its rise in the next month. The happenings in India should not come as a total surprise, therefore.

The decrease in velocity of circulation can be explained on the hypothesis of an increase in liquidity preference from the precautionary motive attended by a decrease in the anticipated cost of attaining this liquidity. This will now be examined.

In seeking to prove that, after periods of transition are completed, changes in the quantity of money cause proportionate changes in prices, Irving Fisher took the position that velocity of circulation is more or less constant, and is not changed by changes in the quantity of money.[15] He thinks of money chiefly from the viewpoint of its work in making exchanges in the present, and that largely independent of the rôle of expectations.

Keynes has gone beyond this mechanical view to an emphasis on the psychological motives for holding money. Of the three motives which he treats, the transactions motive, the precautionary motive, and the speculative motive, the precautionary motive seems to be the one operating with the strongest force in India at the present. It is true that Keynes looks upon "the amount of money required to satisfy the transactions motive and the precautionary motive . . . as mainly a resultant of the general activity of the economic system and of the level of money income"[16] That is, his view is substantially that of Fisher in regard to the holding of money for these purposes. But

[15] "Velocities of circulation of money and of deposits depend on technical conditions and bear no discoverable relation to the quantity of money in circulation . . . If M is doubled, twice as many dollars as before would be expanded, twice as many kept on hand. The ration of velocity to stock would be unaffected." *The Purchasing Power of Money,* p. 167.

[16] *General Theory,* p. 196.

he adds the phrase "in normal times". The precautionary motive might be allowed by him to play an unusual rôle in such times as the present. Whether or not the explanation offered here is construed as falling within his analysis, it is, I think, convincing.

The precautionary motive is described. "To provide for contingencies requiring sudden expenditure and for unforeseen opportunities of advantageous purchases, and also to hold an asset of which the value is fixed in terms of money to meet a subsequent liability fixed in terms of money are further motives for holding cash." [17]

War is an unsettling experience even for people whose only knowledge of it is the newspaper or rumour. The aspect of peril causes the people to seek security and the natural direction of this search in the economic realm is to hold money. What else could be the meaning of the great drain of cash from the banks and the treasuries by the people in India following the fall of France? The people had not lost confidence in money. The lack of confidence was in the outcome of the momentous events of these times. Uncertainty concerning events will increase cash balances and lower velocity of circulation. Uncertainty concerning the value of money will decrease cash balances and raise velocity.

The holding of cash will be the larger (1) the less banking is developed and the fewer cheap facilities there are for obtaining cash loans when they are needed, and (2) the less expensive it is to hold cash in terms of the foregoing of a return on assets held in a form other than cash. Concerning (1) it is certainly true that the unfamiliarity of the general public with banking facilities works for large hoards of money, and that this works with intensified force in war and a time of increased money incomes.

It can be shown that (2) is also operative with a special force at the present time. In his exposition of the cash balances equation Marshall writes that the size of a cash balance is determined by a man's balancing the utility gained from having another unit of currency at his command in ready cash with the utility lost by not having the asset in a form which yields an income.[18] When the

[17] *Ibid.*

[18] *Money, Credit, and Commerce,* p. 44.

rôle of expectations is introduced and we feature men as balancing the expected future advantage of holding cash against the expected future disadvantage from not holding another type of asset, we see the war and its attendant circumstances as operating to increase the former and decrease the latter, working toward a new equilibrium with larger cash balances. Why the uncertainty of war increases the desirability of a larger cash balance we have already seen. Let us now see how its circumstances have decreased anticipated future gain from holding other types of assets.

The chief types of investment for the Indian masses in the villages are land and the precious metals. The prices of both have risen greatly, in most markets by more than the rise in the general price level. The future of one, the precious metals, is highly uncertain. There are alternative investments, government securities in particular, but if the people are unfamiliar with this type of investment or have political inhibitions against using it, we cannot treat it as a realistic alternative. Further, the knowledge that the prices of durable consumers' goods are very high and the expectation that they will not permanently remain so works for the holding of assets in cash rather than in durable consumers' goods. The saying, "I will wait until after the war to replace this or that" is one very often heard. Nothing operates to hold an inflation in check, through reducing velocity of circulation, as does the expectation that prices will eventually fall. And nothing operates to loose inflation, through increasing velocity of circulation, as does the fear that they will rise indefinitely until stopped only by a change of government, perhaps revolution, and revaluation of money.

Nothing exact can be said on the subject of when this change of view comes or what increase in the money supply combined with what concatenation of events will produce it. The evidence of history seems to be that the loss of confidence in a money is not a simple result of great increases in its supply, but is complicated by political events. Specifically, it is usually some dramatic political event which produces the change of view spoken of above and the consequent speeding of velocity. Obviously there is a close connection between such events and increases in the supply of money, since the circumstances which produce the necessity for long continued increases

in the supply of money will in time issue in some crisis.

It has already been shown that the total real value of a nation's money supply is a measure of total real cash balances, whose size moves inversely to velocity of circulation. A historical survey of the changes in the real value of a nation's money supply during periods of inflation affords an insight as to the timing of the change from decreasing to increasing velocity. The assignats of the French Revolution period increased roughly three-fold in nominal value from the beginning of the revolution until 1894 during which time the real value remained approximately constant; *i.e.*, increase in the supply of money was offset by a decrease in velocity.[19] From this point further increases in the supply of assignats worked a progressive decline in their total real value. The note circulation in Germany had increased twelve-fold from the outbreak of the First World War to July, 1919. Yet until that time velocity had fallen, notwithstanding military defeat. Only with the signing of the Treaty of Versailles did confidence weaken and increasing velocity accompanied by further expansion of the note issue send prices into a wild sprial. In Russia the increase in velocity came after a six-and two-thirds-fold increase in the quantity of money and had as its companion event the advent of the Kerenski government. Austria-Hungary reaped its increase in velocity of circulation after a two-and-one-third-fold increase in money supply, and before the war had ended. On the other hand, Italy, with a six-and-two-thirds-fold increase in note circulation between 1913 and 1921, France with a four-and-one-third-fold increase, Holland with a two-and-one-third-fold increase, and Switzerland with a two-and-one-third-fold increase, all passed through their inflations without any appreciable increase in the velocity of circulation. That is, prices rose by less than the increase in the money supply and the real value of the note circulation rose throughout.

The conclusion of the matter appears to be: An increase in the note circulation is full of great and dangerous possibilities. If it is not too extreme and if it is not attended by catastrophic political events, prices will rise

[19] For this and the following examples, consult Bresciani-Turroni, *op. cit.*, Ch. IV.

F. 3

by less than the note circulation rises, because velocity of circulation falls. However, the longer continued the increase in note circulation, the more likely there is to develop the type of political crisis which will unsettle confidence, increase velocity, and greatly accelerate the rise in prices, sending them above the rise in note circulation.

THE ECONOMIC EFFECTS OF TAXES

BY

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In discussions about taxation it has been the practice to place all emphasis on shifting and incidence of taxes and to pay little or no attention to their economic effects.[1] Taxation and expenditure further were discussed in isolation, with the result that, the effects of raising taxes were in no way modified by the manner in which the funds so raised were expanded by the Government. Both these tendencies are embedded in the "classical tradition" and it coloured the outlook of subsequent writers on public finance. Classical writers approached problems of taxation with a view to illustrate the workings of propositions in pure economic theory. Marshall, for instance, remarks "there is scarcely any economic principle which cannot be aptly illustrated by a discussion of the shifting of the effects of some tax "forward" towards the ultimate consumer, and away from the producer of raw material and implements of production or else in the opposite direction "backwards."[2]

The present article attempts to analyse the effect of various taxes on effective demand paying particular attention to the way in which the resources so raised are spent by the Government. In the analysis the following assumptions are made: (*a*) wage-earners spend all their earnings; in other words, all saving is done by the capitalists, (*b*) investment is fixed in the short period; it is the result of investment decisions made previously, (*c*) the proceeds of the tax are utilised by the Government for the benefit of the unemployed, say, for the payment of

[1] Exceptions are: (*i*) "The Finance of British Government," by Ursula K. Hicks; (*ii*) "Commodity, Income and Capital Taxation," by Kalecki, *Economic Journal*, 1937.

[2] Marshall: "Official Papers": Memorandum on the Classification and Incidence of Imperial and Local Taxes, p. 340.

the dole or for public works. Our aim is thus to analyse the effect of various taxes during a cyclical depression.

We investigate the effects of three categories of taxes: (1) consumption tax, (2) income-tax and (3) capital tax.

(1) *Tax on Consumption goods.*

Let us first take into consideration the effect of a tax on consumption goods, consumed predominately by the wage-earners. The first effect of the tax is to raise the marginal cost curve by the full amount of the tax. Thus marginal cost curve mc_1 is shifted upwards to mc_2 by p_1p_2 the amount of the tax.[3] The workers are now so much poorer by the rise in the price of the commodity on account of the tax. Their real wages are reduced.

What is the effect on output or employment? The amount sold is now likely to be reduced, but, since the government spends the proceeds of the tax for the benefit of the unemployed, the consumption of the unemployed will be increased by an equivalent amount. Thus due to state expenditure the marginal revenue curve mr_1 is shifted to the right by the same distance as the marginal cost curve (mc_2). Hence there is no change in output or employment. The output om remains the same after the imposition of the tax. The effect of the consumption tax is thus seen to be a transfer of purchasing power from wage-earners to the unemployed. It exerts no effect on production or employment.

There is, however, a further effect according as demand is elastic or inelastic for the taxed commodity. If demand is elastic, the change in price ratio as between commodities on acccount of the tax will lead to a re-arrangement of expenditure. The new combination of commodities which the individual purchases might represent an 'inferior choice' for, he had hitherto refrained from buying such a combination though it was within his power to do so. The imposition of the tax might

[3] Let the cost be represented on the Y-axis and output on the X-axis. The marginal cost curve mc_1, is drawn horizontal to the X-axis. The marginal revenue curve mr_1, as usual, slopes downwards from left to right. The marginal cost curve is drawn horizontally because of the existence of "excess-capacity" during depression. It is constant up to capacity output and begins to rise only after this point has been reached.

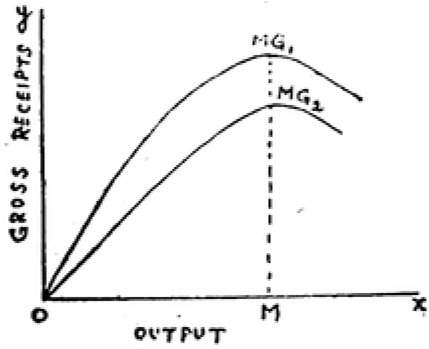
therefore entail a loss of satisfaction to the consumer over and above the money income taken from him by taxation. This is the "excess burden" of indirect taxation.[4]

If demand is inelastic (and the majority of commodities consumed by the poor are relatively inelastic) the consumer may continue to buy the same amount of the commodity even though the price has risen. Thus, given the level of his income, the consumer will have less to spend on other things. The "price-distortion" on account of the tax leads to a rearrangement of expenditure. If the same amount had been taken from him by way of an income-tax, relative prices would have remained unchanged and the consumer's distribution of expenditure on different commodities would have reflected more truly his own preferences.[5] Thus as Professor Hicks points out[6] "apart from distributional effects, a tax on commodities lays a greater burden on consumers than an income-tax."

2. *Incom-tax.*

Unlike consumption-tax, income-tax does not form part of prime cost, but falls on gross profits. The effect of income-tax is to lower the gross receipts or the gross profits curve.

Diagram I



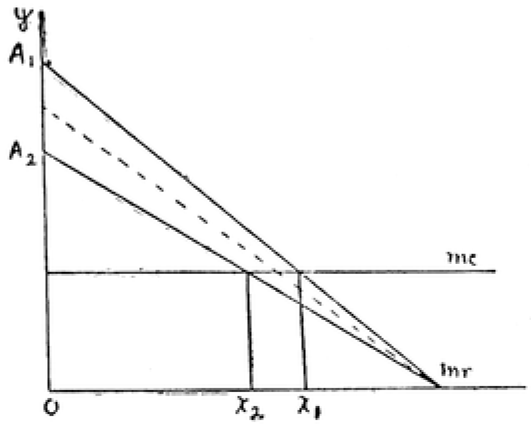
[4] See "The Excess Burden of Indirect Taxation," by M. F. W. Joseph in the *Review of Economic Studies,* June, 1939.

[5] Prof. Hotelling in his article "The General Welfare in relation to Problems of Taxation and Railway and Utility Rates" (*Econometrica,* July 1939) shows how the imposition of a toll causes some people to waste time and money in going round by longer but cheaper ways and prevents others from going.

[6] J. R. Hicks, *Value and Capital,* page 41.

Output is represented on the 'X-axis' and gross profits on the 'Y-axis.' For the output OM the gross receipt is reduced from MG_1 to MG_2. How does it affect output? Corresponding to the gross receipt curve we have the marginal revenue curve.

Diagram II



As a result of the tax, the marginal revenue curve swings from A_1 to A_2 and its intersection with the marginal cost curve is shifted to the left. Hence output is reduced from X_1 to X_2. But this is not the final situation. We have to enquire what happens to effective demand. Effective demand will increase as a result of state expenditure and the increased sales resulting therefrom will, says Dr. Kalecki,[7] shift the marginal revenue curve back to its original position A_1. Here Dr. Kalecki fails to take into account the time lag in the collection of the tax and its expenditure. An interval of time usually has to elapse before the tax-proceeds accrue to the State and before the effects of State expenditure become visible. Thus the marginal revenue curve will lie within two limits as represented by the dotted line in our diagram (No. II above).

This time lag can, however, be overcome if the State borrows on short-term in anticipation of the yield of the tax. The loan could be paid off when the tax receipts come in the hands of the Government.

Next, we turn to the effect of income-tax on the rate of interest and on the marginal efficiency of capital. In-

[7] "Commodity, Income and Capital Taxation," *Economic Journal,* 1937.

come-tax has a tendency to raise the rate of interest for it reduces the net income of lenders. Interest being the reward for parting with liquidity, the reduction of that reward in consequence of the tax will strengthen the liquidity motive. Thus given the quantity of money, the rate of interest is likely to be raised. In the new situation it is the gross rate of interest which is raised; the net rate of interest remains unchanged .

If OM (on the X-axis) represents the quantity of money and r_1 (on the Y-axis) the rate of interest corresponding to the liquidity preference curve L_1 (sloping down from left to right), the reduction in net income on account of the tax will shift the liquidity preference curve to the right from L_1 to L_2. The difference between r_1 and r_2 represents the amount taken by the Government by income-tax.

The above analysis of the effect of income-tax on the rate of interest must not be taken to mean that immediately following the enhancement of the rate of income-tax by the Chancellor of the Exchequer there is a rise in money rates. What usually takes place is that the enhanced rate of income-tax is accompanied by a fall in the prices of certain Stock Exchange securities and a fall in the prices of securities is equivalent to a rise in the rate of interest. A further influence might be exerted on the rate of interest if the capitalists on account of enhanced taxation choose to send their capital abroad. But in a country where incomes from overseas are also taxed, the export of capital will not be of any significance.

What happens to the marginal efficiency of capital? Let us first take the case of an individual investor. He will usually distribute his investments among different assets according to their risk and rates of return. The effect of income-tax is to reduce the rate of return on whatever stock an individual purchases. But the incidence is greater in the case of equities than in the case of fixed interest bearing securities. In times of depression when the yield on equities is very low, an increase in the rate of income-tax reduces the margin which the individual normally requires for bearing industrial risks. The individual may consider that the risk is no longer worth taking.

Similarly in the case of an entrepreneur planning investment. An intrepreneur tries to maximize the dif-

ference between the prospective rate of profit and the rate of interest he has to pay and the allowance for risk which he has to make. Since the raising of income-tax narrows this differential, the inducement to invest is weakened. A progressive income-tax discourages more particularly the risky type of investment since if such an investment is successful the State takes a larger share than it would take on the smaller but more certain income from a safer investment. An entrepreneur weighing this factor may well play for safety.

But this is by no means the final situation. Since the government spends the proceeds of the tax, sales increase and hence gross profits will increase by the amount of the tax. The entrepreneurs are now no worse off in the new situation; they are making the same net profits as before. Thus there will be no change in private investment if net profits alone are considered. Dr. Kalecki argues that investment will be stimulated if entrepreneurs expect the same net profits in the future.

Dr. Kalecki evidently ignores the announcement effect of the tax. If the entrepreneurs do not realize that the tax will lead to greater sales and imagine that gross income will remain unaffected, they will curtail investment. There is also to be taken into account the irrational fear of the businessman that there will be increased taxation in the future. This may not be a logical reaction because of the beneficial effects of State expenditure. But logic probably has comparatively little to do with the psychology of businessmen faced with an increase in income-tax. Thus the immediate effect will be a moderate reduction in private investment.

3. *Capital tax.*

The tax is to be levied on the value of all capital. The question arises as to how the market value is to be determined or what is the rate of discount for finding market values of net future income? Let us denote this by P. If P is kept constant, then all capital values fall as a capital tax is levied or as net incomes are reduced. If the capital value of a security yielding Rs. 5/- per annum is Rs. 100 and if Rs. 2/- is taken by the State as capital tax, the net income from the security is Rs. 3/-. The value of the security will now fall decidedly below Rs. 100/-. Dr. Kalecki assumes that the rate of dis-

count P falls by the amount of the tax as net incomes are reduced so that capital value remains unchanged.

Dr. Kalecki evidently combines the tax on capital with a tax on money deposits. This does not discriminate between different forms in which capital is held. But it does discriminate between future consumption and present consumption. It is really a tax on future consumption. This kind of tax might be good in 'old' countries suffering from a lack of propensity to consume, but it will have a deterrent effect in new countries in the early stages of industrialization.

The tax being predominantly on land and other fixed capital, it will fall on the rich alone and unlike income-tax does not fall on salary-earners and other professional people except in so far as they are rentiers. The rentiers might be tempted to increase their present consumption and thereby sell some of the securities. The rate of interest is thus likely to be raised by the rentiers unloading their securities. This may not be of much importance because the proportion of rentiers to other members of the community is small. Again, people may not have sufficient cash to pay the tax. Hence they will sell securities or landed property . This will tend to depress their values. Moreover, being a tax on money, it may lead to some cancellation of credit.

What is the effect of the tax on private investment? Unlike income-tax it does not increase the advantage of holding cash over bonds or other securities; neither does it discriminate between safe and risky investments. Moreover, gross receipts will increase as a result of government expenditure; but net income will remain constant. Will it increase private investment? According to Dr. Kalecki investment increases from I_1 to I_2 (on the X-axis) because of (*a*) the beneficial effects of State expenditure and (*b*) the capitalists being induced to buy securities in order to have some income out of which to pay the tax; thus stimulating capital outlay. Representing investment on the X-axis and rate of interest on the Y-axis, the marginal efficiency curve me_1 (sloping down from left to right) is shifted to the right to me_2 as a result of government expenditure and the capitalist's buying of securities. Investment thus increases from I_1 to I_2.

Dr. Kalecki assumes that the expenditure of the capitalists remains unchanged. This is true only of the very short period. We have seen that the first effect of the tax is to increase the expenditure of the rentiers. Moreover account must also be taken of the fear of the capitalists that the tax might be repeated. The expectation that there might be higher taxation in the future will produce a discouraging effect on private investment which the beneficial effects of State expenditure might fail to offset entirely.

Against the background of the above theoretical discussion it will be useful to examine briefly the taxation policy of governments during the last depression. In the financial strain of the depression, governments placed more stress on *yield* rather than *economic effects.* Thus increasing reliance on turnover and consumption-taxes became common[8] and it served to increase the regressiveness of the tax system by pressing heavily on lower income groups. Consumption taxes by raising the prices of consumption goods reduce consumer spending and the effect of government expenditure of the funds at first is only to make up the deficiency.[9] We have seen that such taxes have no effect in stimulating output or employment and consequently are to be condemned on economic grounds.

In some countries recourse was had to increased taxation of incomes. In the United Kingdom income-tax is the 'flexible' element in the tax system, that is to say, it will be the first to be looked to when increased revenue is sought and likewise one which is decreased when less revenue is to be raised. Increase in the rate of income-tax by reducing profits produces a discouraging effect on capital outlay; but any such effect must be ephemeral because the reduction in profits will be largely offset by the increase in sales due to the expenditure by the State of the proceeds of income-tax.

There was, however, no instance of bold new ideas of taxation except in Sweden where the Swedish Govern-

[8] For *e.g.*, in the United States on consumption and turnover increased from 13.6% of the total tax revenue in 1929 to 49.6% in 1934. (Vide *World Economic Survey*, 1933-34.)

[9] In so far as the capitalists spend a larger total amount on consumption in the attempt to maintain their customary standard of life, the stimulating effect of Government spending is not completely neutralized.

ment imposed heavy death duties, the receipts from which were set off against the capital cost of the public works programme. Political or psychological considerations particularly among the property owning class weighed with the Governments in not resorting to a capital tax in any case. But, for financing State expenditure and thereby stimulating the volume of employment there is much to be said for a capital tax. The objections against such taxation are largely political and administrative.

THE REPRESENTATIVE FIRM AND ITS PLACE IN THE STUDY OF DYNAMIC ECONOMICS

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The word equilibrium is best defined as indicating a state in which there is no tendency either to expansion or contraction of production. Thus, equilibrium of a firm would mean that state in which it tends neither to expand nor to contract its output, while the expression equilibrium of an industry would indicate that state in which there is no tendency for its output to increase or decrease.[1] Under certain given conditions this meaning of the word equilibrium may express itself in conditions other than the negation of expansion or contraction of output. For instance, when individual firms are in equilibrium the condition of equilibrium for an industry, namely, that its output should not tend to change, resolves itself into the condition that there should be no entry of new firms into or exist of old firm from the industry. But when the firms are not in equilibrium mere absence of entry into or exit out of the industry does not ensure equilibrium of industry. The condition that output should not tend to change may again be expressed in terms of relationship between price and cost. Thus, equilibrium of a firm is defined by the equality of price and marginal cost of production of the firm,[2] whereas the equilibrium of the industry is defined

[1] As Pigou says, "Thus, even when the conditions of demand are constant and output of an industry as a whole is correspondingly constant, the output of many individual firms will not be constant. The industry as a whole will be in a state of equilibrium; the tendency to expand and contract on the part of the individual firm will cancel out; but it is certain that many individual firms will not themselves be in equilibrium and possibly that none will be. *Economics of Welfare,* Appendix III.

[2] When price equals marginal cost the firm is in equilibrium. This is a more particular application of the general theorem that equilibrium is defined by the equality of marginal cost and marginal revenue. The situation does not signify absence of profit or loss. It signifies, rather, the state of development in which chances of maximising profits or minimising losses are fully exploited. Marginal cost, it may be noted,

by the equality of price and average cost of production. The condition for firm's equilibrium is that there should be no further possibility of making profit or reducing loss, while that for industry's equilibrium is that there should be no profit nor loss.

At this stage a difficulty arises. If all the firms are in the same position then they either all make profits or all make losses or all make neither loss nor profit. In such a case there is some sense in saying that the equilibrium of an industry can express itself in the equality of price and average cost. When however all the firms are not in the same position the word average cost loses its definiteness. For, average cost would then differ from firm to firm though not the marginal cost. When individual firms are in equilibrium in such a way that their average costs are also equal to price, no difficulty is felt; for, then the average costs of all firms are equal. In all other cases when the firms' marginal costs only and not the average costs are equal to price what do we mean by saying that industry's equilibrium is defined by equality of price and average cost? In fact it might even be doubted whether in such a case the equality of price and average cost, even if that had a definite meaning, could be regarded as a sufficient condition of equilibrium of industry. It is best, therefore, to relegate the relationship between price and cost to the background and always adhere to the most fundamental condition of equilibrium, *viz.*, that the output should show no tendency either to increase or decrease.

An industry, then, is said to be in equilibrium when its output shows no tendency to expand or contract. And it shows no such tendency under one of the following conditions:

(1) When the individual firms are in equilibrium and there is no tendency for new firms to enter or old firms to exit from the industry.[3]

necessarily means marginal price cost of production. There are, as is indicated in the text later, short period and long period marginal costs. The former is marginal to the short period average cost and the latter to the long period average cost. The long period average cost curve is geometrically the locus of the optimum point on the short period curve.

[3] These are two conditions. It does not mean that when individual firms are in equilibrium there will be no tendency for the number of firms to increase or decrease.

(2) When the individual firms are not in equilibrium but the tendency of some firms to expand and of others to contract just counterbalance each other and there is no increase or decrease in the number of firms.

(3) When the individual firms are not in equilibrium but the tendency on the part of some to expand and some to contract are just balanced and when the exit of some firms is balanced by the entry of new firms.

In no other case can the industry be in equilibrium. Let us now see under what circumstances will each of the above conditions of equilibrium be satisfied.

Individual firms are in equilibrium when their marginal costs are equal to price. They are in equilibrium in the sense that the possibility of maximising profit is fully exploited. There is no entry into or exit out of the industry by firms when, (*a*) all the firms in the industry have their average cost equal to price or (*b*) when, in spite of the fact that the price and average costs of individual firms are not equal, that is, in spite of the fact that some of the firms may be making profits and others running at a loss, those who are losing continue in the hope of better times and outsiders are not tempted into the industry by the profits of some. Such a case is imaginable. For, the prospective entrant into the industry is not normally so optimistic as to be attracted to the industry which has concerns both profit-making and loss-incurring. Optimism and pessimism are evenly balanced when entrepreneurs think that the probability of making profits like some existing firms is more or less evenly matched by the probability of incurring a loss. And such a view an entrepreneur will take either when regardless of the real condition of the industry he somehow thinks that chances of profits and losses are evenly balanced or when in reality such a balance exists and the knowledge on the part of the prospective entrant is correct.

Lastly, we have to note that entry of firms into industry is balanced by exit out of it when in the first place, at least some firms are running at a loss and do not wish to continue in the hope of better times and some new firms are entering the industry attracted by the profits of some firms in the belief, correct or incorrect, that the general condition of the industry indicates greater prob-

ability of profits than of losses and, in the second place, when such exit and entry of firms balance each other.

We thus see that in many cases the possibility of the industry being in equilibrium exists and that the possibility is not a mere theoretical possibility but a very practical one.

In all conditions other than those mentioned above the industry is out of equilibrium. But whenever it is out of equilibrium forces operate to take it towards the position of equilibrium. Let us therefore study the forces that are responsible for such a tendency to equilibrium.

We know that a firm adjusts its output so as to equate its marginal cost to price. When the firms have had time to bring about such adjustments they find themselves in the position of equilibrium. But unless all the firms are of equal efficiency enjoying internal and external economies in the same measure, some firms' average cost will be above and some firms' below the price. Some firms will be making a loss and some profit. Those who are making profits will neither produce more nor less in the short period at any rate; for they have reached the short period optimum output. Those who are making loss will either discontinue production or stick to their position in the hope of return of better times. When those who wish to discontinue have vacated the field the industry is left with firms who are making profits and those who are suffering losses but are hopeful of earning profits in the future. Let us see what it is that is likely to make such firms hopeful. There are three reasons for their optimism :

(1) They may think that the times are abnormal and with the speedy return of normal demand and supply conditions they would be able to balance their accounts.

(2) Secondly, they may not have had sufficient time to put their concerns on a sound basis. In other words, they might still be in a process of reaching the optimum size, so that they know that the losses would soon, or in a reasonable period of time, disappear.[4]

[4] This differs from the first reason. In the first case losses are due to some unexpected change in demand or in the prices of factors of production employed. In the second, they are due to the fact that, though the demand and supply conditions have been properly anticipated, the firm has not had sufficient time to adjust its economy to the conditions of the industry.

(3) And lastly, firms may continue to operate at a loss when they think that the discontinuation of production and investment of realised capital elsewhere would be a greater loss.

Thus for three reasons losing concerns may be found in the industry. In other words, at any particular time we may find that the price may be above the average cost of some firms and below that of others while it may be that it is just equal to the average cost of some one or more firms. The tendencies then in operation are the following:

(1) Some of those who are making profits neither produce more nor less as they have reached the optimum output. (2) Some of those who are making profits may be expanding if they have not reached the optimum. In both the above cases the short period marginal costs equal the price. (3) Some of those who make profits may be contracting due to the fact that they have passed beyond the optimum size. (4) Some of those that are making losses will be leaving the industry. (5) Some losing concerns will continue producing the same amount in the hope of better times. (6) Some losing concerns will produce more if they have not reached their optimum and (7) some losing concerns will produce less if they have passed beyond the optimum.

On the whole therefore the output may be contracting or expanding from within the industry. If as a result of these varying tendencies the industry is as a whole contracting from within there is not likely to be any inflow of fresh resources in it. That is, the number of firms is not likely to increase. In the real world of course anything might happen. But arguing on the basis that what is most likely to happen will happen, we may say that the number of firms in the industry will expand when there is a tendency to expansion from within the industry. And this tendency is there when the forces that cause some firms to expand production are stronger than those that cause other firms to contract production or cease production.

Now, if when the industry tends to expand from within there is a firm that also tends to expand in a similar manner, let it be called the representative firm. Likewise, when the industry tends to contract let the representative firm be the firm that also tends to contract in

the same manner. We shall now argue on the supposition, first, that such a representative firm exists. We can then translate the foregoing propositions in the following words. When the representative firm tends to contract no new firms enter the industry. When the representative firm tends to expand new firms enter the industry.

When new firms enter the industry the price falls and it does so because the output increases. The increase of output is due to expansion from within and without. As the price falls the tendency on the part of firms to expand becomes weaker. In other words the representative firm shows a weaker tendency to expand. As resources continue to flow the price continues to fall and with it the tendency of the representative firm to expand gets weaker and weaker. A position of stability is reached when the representative firm shows no further tendency to expand. That happens when the price becomes equal to the average cost of the representative firm.

When, however, the representative firm shows a tendency to contract no firms enter the industry. The contraction from within causes the price to rise and thus weakens the tendency on the part of the representative firm to contract. Ultimately, a stage is reached when the representative firm tends neither to contract nor to expand. And that is again the stage when the price is just equal to the average cost of the representative firm.

Thus, the price moves either upwards or downwards till it comes to equal the average cost of the representative firm. Of course, the average cost of the representative firm itself changes and the representative firm too changes or may change. But the proposition still stands that the price is continually tending to reach the representative firm's average cost.

We may, therefore, say that the price is influenced and determined by the expansion and contraction of the industry's output. And such expansion or contraction is determined by the expansion or contraction of the representative firm. And again, the expansion and contraction of the representative firm is determined by the fact whether its average cost is below or above the price. It is, therefore, possible to say that the average cost of the representative firm determines the price. This does not, however, contradict the more fundamental proposition that

price is determined by Supply and Demand, nor the more particular proposition that it is the price that settles which shall be the representative firm. After all we cannot say that since the representative firm is determined by the price, therefore, the price is determined by price itself.

The same argument can be worded in a different way. If demand is taken to be fixed, price is determined by cost. Cost is then the independent variable and price the dependent one. It is, however, not the cost of any individual firm that can be regarded as the independent variable in every sense. For, the price is a given fixed quantity from the point of view of an individual firm, in so far as conditions of competition prevail. Hence price is determined by average cost referred to the industry rather than to any firm. Since each firm has a different average cost there is no identity between the average cost referred to the industry and the average cost referred to an individual firm. It is possible, however, to find such an identity between the cost of the industry and that of the representative firm.

It remains now to see to what extent our reasoning needs modification in the light of the fact that the representative firm which can exist may not actually exist. When such a firm does not exist, it is impossible to find any identity between the cost of the industry and that of a firm. We are thus prevented from arguing in terms of a firm. Yet, if we must predicate our statements of a firm we can still speak of the representative firm, and understand by it not any particular firm but only use it as a small-scale picture of an industry.

Marshall speaks of the representative firm as actually existing. It is a firm that has its average share of internal and external economies.[5] It is one that is neither too young and therefore immature nor too old and tottering. Nor has it any special advantages over other firms in re-

[5] Thus, Marshall says, " And a representative firm is that particular sort of average firm, at which we need to look in order to see how far the economies, *internal* and *external,* of production on a large scale have extended generally in the industry and country in question. We cannot see this by looking at one or two firm taken at random; but we can see it fairly well by reflecting, after a broad survey, a firm, whether in private or joint-stock management (or better still, more than one), that represents, to the best of our judgment, this particular average. *Principles of Economics,* Eighth Edition, p. 318.

gard to situation or goodwill. It is, therefore, a firm which is not likely to have the tendency to expand when the industry is on the whole tending to contract. Nor is it likely to show a tendency to contract when the general tendency of the industry is to expand. Marshall's conception of the representative firm is, therefore, one that would necessitate no change in our arguments if it were substituted for the representative firm as defined by us. The only difference is that whereas we understand by such a firm one that shows the tendency to expand or contract with the industry in the same manner, Marshall defines it as one that has its normal share of the economies and is normally placed in regard to situation and other factors that influence the cost of production. Marshall does not feel it necessary to point out the fact that when such a representative does not exist we can still have it as a useful conception for purposes of wording our principles in terms of a firm which is a less hochpoch concept than industry.[6]

In all those cases in which an industry is composed of a large number of firms the probability of a representative firm actually existing becomes obvious.

When we consider the effects of an invention on the cost of production of a commodity the above theory stands in need of restatement though not a radical change. An invention has the effect of bringing down the cost of production. It often necessitates considerable changes in the general organisation and an enlargement of the scale of production. All the firms in the industry or at any rate those who are not making sufficient profit or are running at a loss find it necessary, therefore, to effect such changes. If a large number of significant firms decide to incorporate the invention and thus expand their scale we may say that the industry shows a tendency to expansion

[6] Marshall pictures the representative firm as a typical firm, "built on a scale to which actual firms tend to approximate . . . That this conception is appropriate to actual conditions is well shown by the studies of the sizes of a number of actual businesses carried out in 1914 by Sir Sydney Chapman and Mr. Ashton." Their conclusion was, "Generally speaking, there would seem to exist in industry or branches of industries, of adequate size, under given sets of coditions, a typical or representative magnitude to which businesses tend to grow . . . As there is a normal size and form for a man, so, but less markedly, are there normal sizes and forms of businesses." Pigou, *Economics of Welfare,* Appendix III.

from within. The representative firm would then be the one that is also expanding in like manner. Its cost of production or its expected cost of production would be the normal cost. The influx of new producers in the industry can then be taken to be governed by calculations incorporating the cost of the representative firm. But when most of the firms in the industry do not find it possible to reorganise themselves so as to be able to take advantage of the invention and therefore either discontinue production or cut down their output, the industry shows a tendency to contraction from within. The representative firm then comes to be one that is itself contracting. And yet there will be an influx of producers from without. The chances of such a thing happening are however rare. Yet, if we do not want to ignore such a possibility, however remote, we should understand by representative firm the firm that shows the same tendency to expand or contract as the industry, without limiting the expansion or contraction to changes from within the industry. When, however, the concept of the representative firm is thus widened it ceases, we should note, to have much practical utility. We feel, however, that it serves on the whole a useful purpose in enabling us to apply the technique of static equilibrium analysis to problems of the real world.

A word may now be said about Pigou's equilibrium firm. His concept of equilibrium firm differs from our concept of the representative firm in this respect that whereas the equilibrium firm is necessarily in equilibrium the representative firm is not. There is a representative in every case, *i.e.*, whether the industry is in equilibrium or not. When, however, the industry is in equilibrium in any of the ways which we have described above, the representative firm coincides with Pigou's equilibrium firm. The two concepts of the representative firm and the equilibrium firm are alike in the respect that they both represent the condition of the industry as a whole. When the industry is in equilibrium price equals the marginal as well as the average cost of the equilibrium and the representative firm.

TOWARDS EQUILIBRIUM IN INDIAN AGRICULTURE : SOME SUGGESTIONS FOR A POST-WAR POLICY

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This article proceeds on the assumption that there is a state of continuous disequilibrium in the cost-price relationship in sections of our agriculture. This assumption is based on the following considerations. The long period trend of agricultural prices on the world market has been generally downward, due mainly to the opening of new agricultural areas, the application of machinery and improved methods of cultivation resulting in larger yields per acre and the application to agriculture of modern methods of business organisation and marketing. In India, on the contrary, the methods of cultivation and the crop yields in general have more or less remained stationary. This means that productivity per factor unit is improving in the progressive countries, while in ours either there is no change or it has been a change for the worse in this respect. Further, the increase in the demand for agricultural staples has not kept pace with the increase in the area under cultivation taking the world's agricultural regions as a whole; and this has reinforced the downward trend of agricultural prices. As against these international factors, in our country, the growth of population, the deterioration in the quality and the increase in the quantity of cattle, the reckless growth of subdivision and fragmentation, the universal prevalence of disproportionate burdens on the agricultural classes in the shape of rent, revenue and interest rates, the general absence of modern practices in its business and marketing aspects have contributed to the raising of agricultural costs—a tendency which is the reverse of what is noticed in agriculture of the progressive type. Thus, Indian agriculture finds itself to-day between the Scylla and Charybdis of falling prices and a rising cost structure. It seems necessary that any attempt at improving agri-

culture must take this disequilibrium as the starting point.

The existence of disequilibrium may also be inferred from the other fact of the presence of a deficit economy in Indian agriculture. The absence of a business view towards agriculture enables many an agriculturist in this country to carry on, season after season, with the cultivation of lands which are not worth cultivating. This is also rendered necessary or possible in some cases by the absence of alternative employment, the low wage rates, the pressure of population, etc. From all this the inference may be drawn that a section of our agriculture is extra-marginal and lies beyond the economic margin of cultivation. It is, indeed, relevant to the point that under the present highly inflated price levels, there is practically the same area under cultivation as there was during the depression years! It is even possible that due to the pressure of population the cultivators try to make up the deficiencies by increasing the area under crops even though the price situation may not warrant it—such an apparently absurd phenomenon being not strange in agriculture. A statistical study made by the League of Nations during the last depression revealed that during those years in several of the agricultural countries the area under cultivation actually increased with a fall in prices, the farmers trying to compensate for a fall in value by the increase in quantity ! In a similar way, it is probable that in this country in normal times there are lands under cultivation which, strictly speaking, are extra-marginal. How much of our agriculture is of this character is perhaps difficult to assess even in a rough way. This is necessarily a matter for investigation based on patient researches relating to agricultural costs and prices in different areas and for different crops.* But the fact that such cultivation is there, is perhaps easy to assert; and one might infer from this that there are two margins of cultivation—the economic margin and the actual margin which, in our country, lies a little further than the economic margin.

* The kind of work done by the Gokhale Institute in its "Survey of Wai Taluka" is a pathbreaking effort in this direction and more work of this kind has to be done before any generalisations of a quantitative nature could be attempted.

As regards this extra-marginal cultivation what is perhaps of greater importance to realise is that the size of this extra-marginal cultivation is not a constant but variable quantity. Acres which are worth cultivating at one time may cease to be so when the price levels go down. Thus the area under extra-marginal cultivation varies with changes in the price level in an inverse way. The total area under cultivation remaining the same, an increase in price reduces the extra-marginal area and *vice versa.* There are thus, always, certain lands which alternately become supra-marginal, marginal or extra-marginal according to the prevailing price level. During times of depression the extra-marginal "belt" becomes wider; and in that proportion the burdens on the agriculturist—rent, revenue and interest charges,—become heavier and create a deficit budget. These he meets by borrowing; and "continues to be in business" by thus integrating his losses with the income of better periods. Where, however, the land is for long periods or permanently below the economic margin, continued borrowing leads to the alienation of land and brings about the growth of landless labourers on the one side and on the other concentration of land in the hands of moneylenders or the owners of supra-marginal lands. The latter, taking good and bad lands together, can continue to cultivate them, although with depressed average income per acre; while the body of dispossessed labour finds emloyment at depressed wage rates. If this is true, it implies that in agriculture unlike in industry, price fluctuations tend to produce fluctuations in income rather than in the volume of employment or the volume of production (area under cultivation). These income fluctuations are reflected in the changes in the volume of indebtedness at the margin; and it may not be erroneous to suggest that changes in the extent of extra-marginal cultivation and therefore of the degree of disequilibrium in agriculture may be roughly assumed to be proportionate to changes in the volume of indebtedness at the margin. In other words, if we assume that for a given area under cultivation a certain volume of indebtedness is appropriate under conditions of equilibrium, the degree of increase in agricultural indebtedness over and above this volume, brought about as a result of fall in prices is proportional to the area of the extra-marginal "belt"; or the extent of disequilibrium is reflected by the increase in agricultural

indebtedness. Of course, changing prices not only influence the nature of indebtedness but also that of wages, rents, etc., but the change in the volume of indebtedness offers the true index of the extent of disequilibrium because it represents the net situation taking the position of prices and costs into account.

If this analysis of our agricultural problem in the light of the principles of equilibrium theory has any substance, it seems to warrant a further tentative inference that agricultural indebtedness beyond a certain limit, corresponds in an agricultural economy to what the problem of unemployment is in an industrial economy. Both these are intimately related to the problems of the price level, the trade cycle, the rate of interest, the nature of wages and (in an agricultural economy) the nature of rents. In that case the analysis of the problems peculiar to our agriculture—that of the semi-permanent extra-marginal cultivation, rack-renting, fluctuating incomes and agricultural indebtedness—might be helped considerably by the recent advances in the theory of the trade cycle and the allied aspects of economic theory worked out with reference to the problem of unemployment in the mainly industrial countries. In our country, we possess a good number of studies of our agricultural economy of a purely descriptive character but we have no knowledge worth the name concerning the nature of the cost-price relationship in agriculture, of the extent of extra-marginal cultivation which is undoubtedly there, of the character of the relationship between the rate of interest and the fluctuations of investment in agriculture, of the nature of the relationship, if any, between this investment and the level of wages; of the character and extent of exploitation of labour by other agents due both to its excessive supply and the presence of imperfect competition, etc. Patient research along these lines is a necessary preliminary to any intelligent planning of our post-war agriculture.

But it is equally true that while researh continues to be carried on the problems of agriculture cannot wait and there must be a plan of some kind for agricultural reconstruction. If the hypothesis of a state of continued disequilibrium is accepted, then it becomes necessary to plan for a reduction in the costs of our agriculture. This is necessary because a control of prices has its limitations and in any case it could not offer a permanent solution

even supposing that some kind of a closed system becomes practicable. What then are the directions in which attempts might be made to bring about a lowering of the costs of agriculture?

To start with costs connected with the factor land, there are two important aspects to it—(*a*) tenancy, and (*b*) land revenue. As regards tenancy problems much spade-work had been done in the provinces under the Congress governments. But what has been done is a very small contribution towards what needs to be done—particularly, if we take into account the zemindari areas and the native States where conditions are still nearer the feudal economy than any comparable models even in British India. It is also worthy of notice that while the injustice of an excessive rate of interset has attracted considerable popular attention, the injustice and exploitation involved in rack-renting has scarcely excited the imagination of the legislator and the publicist in proportion to its importance. Tenancy reforms are urgent not only because of their use in rectifying distributive injustices and increasing the share of national dividend of the poorer agricultural classes but also from the more fundamental aspect of its healthy and encouraging influence on the volume of agricultural production itself. In the post-war period, therefore, if it is desirable to step up agricultural production and reduce the cost per factor unit, progressive tenancy reforms more or less along uniform lines in all areas seems to be a necessary prerequisite.

Consider similarly the question of land revenue. It may not be strictly speaking an item of cost. Also an authoritative statistical investigation has yet to be made regarding its bearing on agricultural production and distribution. Yet, it would not be too wide off the mark, perhaps, if it is asserted that by its encouragement to absentee landlordism, particularly in the zemindari areas, by its lack of progression in the rate of assessment, by having, in ryotwari areas, periods of assessment which are too long and by not having any minimum revenue-free limit, has exaggerated the tendency to maldistribution and has not encouraged agricultural effciency. In the case of land revenue reform, as in tenancy reforms, there is much to be said in favour of reforms based on uniform principles for all the country with

variations in detail. A low land revenue assessment combined with an agricultural income-tax designed to introduce the principle of progression is necessary not only in the interests of fiscal justice but as an aid to productive efficiency. If such a reform were undertaken, it may be also desirable to introduce the principle of differential assessment both as an aid to the introduction of the principle of progression; but more than that as an expedient in any scheme of crop planning which may be undertaken. This may be done by having a comparatively low assessment in the case of crops the cultivation of which needs to be stimulated and a fairly high one where cultivation needs to be discouraged. Possibilities in this direction should be investigated.

As a part of the plan for reducing agricultural costs it is necessary, too, to give attention to the problems of quantity and quality of population. It is essential that there should be a population policy and for the introduction of measures designed to improve its efficiency.

But one of the knottiest problems of which much more analysis is necessary is that of agricultural credit and its peculiar characteristics. Some obvious defects of the agricultural credit position at present are a rate of interest which is seemingly far in excess of the rate of yield in agriculture, and an absence of co-ordination between rural finance and the rest of the money market. What needs analysis is the fact that some recent attempts to lower the rate of interest for rural credit by legislation have resulted in restricting credit even when such rates have been fixed well above the prevailing market rate. This has been particularly noticed in Madras, the rural debt legislation there being a little more rigorous than elsewhere. This indicates again that the charges for risk, incidental to agricultural credit, are fairly high, necessitating a higher rate of interest. Apart from risks due to the vagaries of the monsoon, etc., which make agricultural financing more than normally risky, the fact of abnormal rates could be explained on the hypothesis of extra-marginal cultivation. Financing this extra-marginal section of agriculture not only renders the money-lending business more than usually risky but involves some definite losses in interest and some times even of principal. These losses have to be made good on the whole and this the moneylender seeks to do by levying higher rates

of interest on the more prosperous sections of agriculture. In this connection it is hardly possible to resist a temptation to suggest that possibly in the case of these extra-marginal lands (as even in other sections of Indian agriculture) marginal productivity has little relation to the rate of interest paid, because, an average agriculturist is hardly business-minded; and proceeds not by the criteria of balancing costs and prices but by that of keeping his land under the plough. He lets himself thus to be charged with a higher interest even as under the pressure of population he lets himself to be rack-rented. But from the moneylender's point of view it is necessary to compensate himself for the losses on the loans to the extra-marginal section. This indicates at the same time the complicated character of our agricultural credit and the difficulty of integrating agricultural credit with the general money market. Some sections of our agriculture are *not* credit worthy and yet they are kept in cultivation only through a system of credit which compensates itself by charging too heavy rates of interest paid by agriculturists without a fine sense of business calculation. It is a technique of business unknown in other branches of industry and which can possibly best function only along its traditional lines.

Regarding rural credit, therefore, nothing seems to be so essential as to realise that cheap crtdit is *not* the one blessing that the agriculturist is in need of. The general aim should be to make credit restrictive and should be designed to eliminate borrowings not warranted by the rate of productivity. The trouble at present seems to be that capital values of land do not seem to be governed so much by their income-yielding capacity—the preference for investment in land being there for whatever reasons it might be. If the right of the creditor to alienate land for non-payment of debts is completely eliminated it might be possible to establish a relationship between the income value and the borrowings by the agriculturist. Finally, as regards attempts made to integrate the indigenous banker (the rural banker) with the rest of the money market, it seems necessary to realise clearly that either we plan to run agriculture on business lines and integrate it with the rest of the money market; or continue to keep large sections of it as at present as part of the subsistence economy with all the traits of vagueness which prevail at

present. But until agriculture becomes a regualr farm business attempts to link up the traditional agricultural finance agencies with the modern businesses may only result in disorganising monetary conditions to the disadvantage of both. It is no use, therefore, looking too wistfully to the Agricultural Credit Department of the Reserve Bank of India for solutions in this direction. For, if agriculture is to be transformed into a regular business it involves the elimination of the extra-marginal belt; this in turn means the elimination of such "employment" for rural labour that this section of our agriculture provides. This can conveniently be done only when alternative occupations are planned for the absorption of our agricultural population. Here the question of agricultural policy naturally gets mixed up with the whole question of occupational planning and industrial and other developments. It seems, indeed, to be true that the problem of agricultural indebtedness is co-extensive with the whole problem of Indian Economy.

As part of the problem of agricultural cost it is also necessary to consider the question of agricultural equipment. At present there is too much of capital and too many heads of cattle owing largely to the prevalence of sub-division. This capital is not only excessive but its uneconomic character arises from its low quality. As an item in agricultural costs its contribution to the present cost level must be considerable. Its reduction involves improvement and modernisation of equipment in cattle and implements. The introduction of machinery, desirable on grounds of economy, is rendered difficult on account of the cheap labour available in such quantities. But as a means of lowering agricultural costs, sooner or later it may be necessary for us to compromise with the machine in agriculture as we find it necessary to do in industry. The question, therefore, seems to be not, whether we should employ machinery in agriculture, but the more pertinent one—whether there is a method which would secure for Indian agriculture the advantages of the use of machinery without the evils of excessive unemployment which the use of machinery necessarily involves. For, it must be recognised clearly that we can have the present level of employment only with the present standards of living. If this has to be raised we must take to the machine at least to the extent to which the use of machi-

nery results in a clear increase in productivity. This question naturally leads to the consideration of the problem of organisation.

The adoption of mechanisation in agriculture would be practicable only with a fundamental change in the forms of organisation. Just as the growth of new forms of business organisation have unleashed new forces of production and enabled large volumes of business to be transacted, so also the evolving of new forms of organisation in agriculture is an essential condition for its further progress. The introduction of many of the desirable reforms is rendered difficult in this country on account of the individualistic nature of our agricultural economy. We must necessarily evolve by conscious planning a system of co-operative or collective farming. In that, indeed, seems to lie the hope for rationalising our agricultural economy without involving serious problems of unemployment and pauperisation which otherwise would rear their head in uglier forms. We may try to tackle the individual agricultural problems separately but these would remain ineffective until some variety of collectivisation is not brought about. We will have to choose between individualism and agricultural prosperity. For, only those agricultural countries to-day can show some semblance to prosperity which have co-operative or collectivist agricultural organisations.

Research into many details concerning this and other agricultural problems is of course an urgent necessity; and agriculture should become a constant concern both of the government and the universities. The agriculturist himself is blissfully ignorant even of the fact that there are problems to solve and the difficulty and responsibility on others for its reorganisation is consequently more. Research must be directed more and more to the economic problems of agriculture. Researches into the problems of production technique may be useful but problems of economy are no less important for the problems of production are circumscribed within the limits of supply and demand and cost and price. Production research which takes no account of these problems may be good as an exercise in pure science but it will possess little practical value. A specialised institution devoted to researches in agricultural economy seems to be an urgent necessity and if it could work hand in hand with the Imperial Council

of Agricultural Research it may be able to turn out excellent results. In the post-war period, if not even immediately, a ministry of agriculture to organise agriculture and to plan it more or less on an all-India basis seems to be a crying necessity.

NOTES AND MEMORANDA

India's Trade with U. S. S. R.

The U.S.S.R. occupies quite an unimportant place in the list of nations with which India maintains trade relations. Attempts have no doubt been made to improve India's trade with a number of non-Empire countries. But any effort in this direction in the case of U.S.S.R. is conspicuous by absence. Despite this the Indo-Russian Trade has been rising steadily over the last decade, though its volume is still small by comparison with India's trade with other countries. Soviet Union is so vast and so remote, not of course geographically, that abundant ignorance prevails in India with regard to trade potentialities of U.S.S.R. Commercial informations are very inadequate. Hardly any comments are made in the Government publications on India's trade with Soviet Union. Only bare statistics are available.

	1929-30	1930-31	1931-32	1932-33	1933-34
	Rs.	Rs.	Rs.	Rs.	Rs.
Imports ...	1,98,56,193	2,89,97,578	2,79,32,858	1,96,59,813	1,63,83,332
Exports ...	57,66,589	74,37,515	66,90,675	37.63,665	8,06,362
	1934-35	1935-36	1936-37	1937-38	1938-39
Imports ...	1,56,72,462	1,61,03,437	1,25,73,039	72,52,729	20,03,719
Exports ...	8,42,229	35,22,170	42,56,168	56,41,358	37,70,718

The above table has been compiled out of figures collected from "Annual Statement of the Sea Borne Trade of British India." It should be noted that figures in the above table as well as those that will be taken into consideration later on are based on values as actually recorded in the periods stated and do not take any account either of the changes in the aggregate values or of the variations in the volume of trade consequent on the alterations in the price-level. Another point that should be borne in mind is that here we are only concerned with British India. An examination of the table shows that throughout our imports from Soviet Union exceed our

exports to that country save the year 1938-39. The divergence between the volume of exports and that of imports has continued to be marked till the year 1936-37. Since 1937-38, it has narrowed down and ultimately the balance of trade turns in our favour in the subsequent year. The volume of imports tends to diminish since the year 1930-31, the peak-year. This tendency is slightly interrupted by a small rise in the year 1935-36. The total imports fall as low as Rs. 20,03,719, in the year 1938-39. The export figures indicate sharp fluctuations from year to year. The year 1930-31 seems to be the peak year both for exports and imports. The lowest figure for exports is located in the year 1933-34.

Imports into India from Soviet Union are distributed over a large variety of items of which more important are Kerosine, Tea Chests, Wood and timber products and some chemical substances. Chemical preparations include sodium compounds and dyeing and tanning substances. In 1932-33 we imported sodium compounds valued at Rs. 10,12,558. Since then, the volume of imports of this commodity has contracted till the year 1935-36. Since that time, there has been a slight improvement, figures for 1937-38 being Rs. 42,000. We imported dyeing and tanning substances worth about Rs. 1,52,153 and Rs. 69,503, in the year 1937-38 and 1938-39 respectively. We have imported Kerosine oil in good amount. Our largest quota is recorded in the year 1930-31 valued at Rs. 2,42,04,936. Since then our purchases of Kerosine oil have contracted—the lowest figure Rs. 69,19,374 being recorded in the year 1937-38. Beside Kerosine we have imported from time to time some amount of fuel oil, Diesel oil, and Petroleum dangerous flashing below 76°F including petrol benzene and benzol. In recent years, import figures for wood and timber products show some improvement—Rs. 1,23,865 in 1938-39. On the other hand, imports of tea chests have tended to fall. We have made purchases of machinery and mill work on a very small scale from 1930-31 to 1933-34. From time to time we have imported paper and paste board, seeds and beet sugar. Since 1934-35, we are importing provisions and oil man stores—the latest figure for 1938-39 being Rs. 9,787. In 1938-39, we have imported manures and Raw Cotton valued at Rs. 7,76,673 and Rs. 15,371 respectively.

The principal items of India's exports to Soviet

Union are Jute (Raw and manufactured), Tea, Textiles, Rice, etc.

Jute	1929-30 Rs.	1930-31 Rs.	1931-32 Rs.	1932-33 Rs.	1933-34 Rs.
Raw ...	1,65,982	4,00,500	5,26,423	18,879	53,592
Manufactured.	4,27,459	8,24,276	30,33,558	16,09,683	2,62,122

	1934-35	1935-36	1936-37	1937-38	1938-39
Raw ...	4,88,082	27,61.291	28,42,512	50,50,267	34,60,620
Manufactures.	3,13,200	3,600	...	6,275	...

The above table indicates that while the position of raw jute has improved in recent years, the export of jute manufactures is characterised by a sharp fall. This is perhaps due to remarkable industrial development of U.S.S.R.

	1929-30 Rs.	1930-31 Rs.	1931-32 Rs.	1932-33 Rs.	1933-34 Rs.
Black Tea	43,19,121	50,24,027	25,41,134	16,51,140	3,61,778

	1934-35	1935-36	1936-37	1937-38	1938-39
Black Tea	20,174	7,51,319	13,32,950	5,81,750	49,515

The highest export figure is recorded in the year 1930-31. Since then our export quota has tended to fall interrupted by a slight rise in the years 1935-36 and 1936-37. Suitable steps may be taken to improve our export quota to Soviet Union. To a great extent the sharp fall in the exports of tea to Soviet Union is due to the India Tea Control Act, 1933, whereby exports of tea by sea have been restricted. We have from time to time exported cotton twists and yarn, rice, seeds, spices, etc. In 1938-39 we have exported shellac valued at Rs. 1,42,503.

The general feature of the Indo-Soviet trade is that both total figures and figures for different items are subject to sharp fluctuations. It is often found that export or import of a particular commodity has continued for some time and then comes to a standstill. Any transaction in that commodity may come to an end for good or may revive after a lapse of a long period. Such marked

irregularities are noticeable in many cases and are certainly due to absence of any regular trade contact between India and U.S.S.R.

Since the outbreak of war significant changes have taken place in the nature and direction of India's foreign trade. Freedom from exchange restrictions within the sterling area naturally fostered the growth of empire trade. Consequently during the early part of the war volume of our trade with Soviet Union dwindled to a negligible quantity. Since the German invasion of Russia there has been an appreciable improvement. But as transactions are mostly effected through U.K.C.C. on Government account, correct statistics are not available. However the volume of transactions can be guaged from the following observations of the Chairman of the U.K.C.C. —"It is not possible to give details of actual tonnages but the scope of business done in India for Russia was indicated by the fact that one recent order was for eleven million gunny bags." Jute rope, gunny bags, cotton canvas, hides, shellac, tea, groundnuts, tobacco, and graphite are the main articles exported through U.K.C.C.

Although there is a tendency to develop new industries in Soviet Union in order to avoid the need to import the corresponding articles from abroad, this does not mean an attempt to abolish foreign trade altogether. There are certain articles as for example tea which the Soviet Union will always have to import. The Soviet State has the monopoly of foreign trade. It has the fullest control over what is exported and imported. This is vital to the carrying out of any planned system of production and distribution and capital development. That being the case, it is easier to carry on commercial negotiations with the Soviet Government. For not only it has the fullest knowledge of its own needs, the Government is not hampered in its task by the large mass of private enterprises and vested interests. In recent years, the Soviet Government has concluded commercial agreements with a number of countries including Great Britain. There is no reason why the Government of India should not establish a machinery to bring about a direct contact with Russia. India's trade has suffered in the past largely on account of the lack of trade representatives in other countries. It is only in recent years that trade missions have been set up in some coun-

tries. It would be of particular advantage to India to conclude special treaties, with neighbouring countries like U.S.S.R. and China. Geography alone points to a more intimate economic relationship between India and Soviet Union.

Calcutta RITENDRA NATH SEN GUPTA, M.A.

Economics of Stakhanovism

Though it is about ten years that what is called the "Stakhanovite movement" has been started in Russia to improve production, or rather the *per capita* production, it is surprising that it has not yet received sufficient attention from either the economists or the manufacturers. My aim in this short paper is to discuss the economic aspects of this movement.

This movement is a part of the great production drive attempted in Russia after the Revolution. In a way it is the workers' contribution to the success of the various plans to increase wealth in that country. Incidentally it is an eye-opener to all those sceptics that prophesied that workers in Russia would not have any incentive to work as they have in a capitalistic country. It is a movement started by a Russian worker called Stakhanov, a mine-worker in Ukraine, with a view to increase production per head of a worker. Before we go into the details of this scheme, let us study the theoretical aspects of improving production per head. Now it can be increased generally in three ways, namely,

(*a*) by the labourer putting forth some more effort or working for some more time,

(*b*) by increasing the capital available per head,

(*c*) by introducing a better system of production, *i.e.*, by organising labour and introducing a better technique of production and correct division of labour.

The Stakhanov movement is based on the third way. It does not mean that production should not be based on

the former two but that they also are introduced and that there are obvious limitations to them and also some defects. For instance, the first on which the capitalistic production depends much, presupposes that the worker is not already putting forth his best. In this system the limit comes too soon for the worker gets tired soon and diminishing returns come into operation. The second method, in which also the capitalistc system believes much, presupposes the availability of more capital to be supplied to the labourer; otherwise unemployment would result as it is actually seen to-day.

Stakhanovism believes in the third way and begins where the other two end. To all those who believe that more physical effort alone can result in greater production, Smetanin, a follower of Stakhanov, says, "Many people think that increased production of Labour can be obtained only at the cost of physical strain. Nothing can be more mistaken. Labour productivity can be increased only by a perfect mastery of technique." Here is what Stakhanov himself says, "To extract 100 tons of coal and more per six hour shift does not call for an exceptional effort. All that is needed is to organise the work properly."

Let us see what it is. It is a movement for making some innovations in the methods of production so that quantity produced within the same time and with the same energy and labour would increase by simply increasing the division of labour and perfecting it. Here is what Stakhanov has done at the Irmino mine in the Ukraine:

He has simply separated the processes of coal cutting and propping of the workings which obviate the need for each hewer to change frequently from one operation to another and enabled the picks and the mechanical drills to be continuously utilised throughout the shift. Previously the hewer had done only two and a half to three hours of actual hewing the rest of the time being spent on propping. This happened on two shifts, the third being a repair shift; the result was that the pneumatic drills were operated only for five or six hours and were idle for the rest of the twenty-four. The new method enabled Stakhanov and a team of timberers working with a mechanical drill to obtain a remarkable output of 102 tons in a shift of five and three-quarters of an hour and later even higher figures. Later the improvement was combined

with another, an altered method of working a vertical seam so as to cease the strain on the hewer and to enable the coal as it was hewn to drop directly on to the conveyor, thereby facilitating a more rapid removal of coal from the coal-face.[1]

As the above description proves Stakhanovism shows no new principle except putting into practice the old theory of the division of labour. But Stakhanovism is not mere division of labour but more than that; it is perfected technique of division of labour with the human element introduced into it. It is a movement for rationalising the working methods of technique. In the words of Ordinikidge, the Commissar for Heavy Industries, "There is nothing strange, nothing bewildering in all this . . . correct Division of Labour, correct organisation of the work place, correct arrangement of the technical process—there you have the secret of the Stakhanov movement." The difference between this and the ordinary division of labour, it looks to me, is that this movement takes human personality and human element into consideration—important aspects rather conspicuous by their absence in the latter. The one criticism against the division of labour, whatever might be the other advantages, is that it is mechanical and it reduces man to the status of mere machinery; labour becomes a part of the machinery, the machinery adapts the worker, whereas in Stakhanovism the worker retains his personality, adapts the process to his genius, capacity and convenience. It is correct, scientific and humanised division of labour.

Again, this is not the same thing as the so-called scientific management or what we call Taylorism of America, though many people have called it in fact 'Taylorism in Russian clothes' and though to quote Maurice Dobb once again, "It is true that few of them (the methods used) will surprise students of American scientific management." But here again there is a fundamental difference. The essence of Taylorism is the scientific adaptation of the factors of production including human labour by the management for better production. The 'time study' and the 'motion study' and the vocational and psychological tests, all treat labour on an

* From Maurice Dobb: *Soviet Economy in Peace and War*, on which I depend for some of the factual information.

equal par with the other factors of production. Here again the human element is forgotten and ignored. Hence it is that organised Labour regards Taylorism as 'speeding up' process and nothing else.

Not that 'speeding up' is not the idea behind Stakhanovism. The underlying motive is of course better production, and both Stakhanovism and Scientific Management take the scientific and correct division of labour as the means to produce more. But the difference is this. Now labour can be better organised in two ways, *viz.*, by reform thrust from above and reform got from the initiative and the inventive genius of the worker from below. The latter has many advantages over the former. When reform is thrust from above, the worker feels the burden of authority as a negation of democracy, feels degradation and loses the power of initiative. He will have no enthusiasm to work the scheme when he has no voice in it and looks at the whole thing with suspicion. Now Taylorism is based on this principle and that is why it is not enthusiastically walcomed by the Labour. Here is the testimony of the Federal Commission On Industrial Relations (1913) on Scientific Management: "Neither organised nor unorganised Labour finds in Scientific Management any adequate protection to their standards of living, any progressive means of industrial education or any opportunity for industrial democracy by which Labour may create for itself a progressively efficient share in efficient management. And therefore as unorganised labour is totally unequipped to work for these human rights, it becomes doubly the duty of organised labour to work unceasingly for them, and if necessary to combat an industrial development which not only does not contain conditions favourable to their growth but, in many respects, in hostile soil." In short the drawback of Scientific Management is that it is introduced by the management from above without the consent of the worker concerned.

It is in this essential point that Stakhanovism is different. It is here that one finds an improvement on Taylorism —it depends on the initiative of the worker himself, and hence it derives all the other advantages. Scientific management is quite suitable for Capitalistic production where authority from above is an essential feature of the structure. But that cannot work in a system where the principle of industrial democracy is not only recognised but also put

into actual practice. Many people think that because there is a political dictatorship in Russia, there is no principle of democracy at all there. But on the other hand democracy is practised in Russia to a much greater degree than in the democratic countries. From the military to the industry, all people are trained on the principle that recognises the personality and his initiative. The army, it seems, is trained on the basis of small formations "with the fire-power and the brain-power to act independently." In industry the same principle is followed, the individual is made responsible to his job and his initiative is trusted. This is what makes a job pleasant and different from slavery and hence it is that the worker puts forth his enthusiasm and efforts both physical and mental. And Stakhanovism is based upon this principle. What was novel about it, says Maurice Dobb, is "that it represented a movement to rationalise working methods that arose from the initiative of individual workers themselves; and as such its achievement came as a definite surprise to the management of industry. What in other countries has generally been devised by functional foremen and efficiency engineers often in the teeth of relentless hostility from ordinary workers was now being initiated by workers themselves." "An important difference from Taylorism is," says Mr. Hubbard ('in Soviet Labour and Industry') "that Taylorism is imposed from above while Stakhanovism is (officially at least) based on the inventive genius of the workman himself."

But when compared with Taylorism, it has an obvious handicap, though to a certain extent it has been overcome. Stakhanovism by relying too much on the initiative of the ordinary worker presupposes a degree of intelligence rather rare among the ordinary workers even if it is in Russia. That it requires an intelligent application of intelligent methods is admitted by the followers of the movement themselves. For instance, Smetanin says that "In order to work well, you must know your machine well: you must know its inner life . . . . . I did my 1400 pairs, not as a result of physical strain but solely maintaining a rhythm and because I made a careful study of each operation." Another Stakhanovite says "if the Stakhanov movement is to make progress more intelligent methods must be applied . . . . I have arrived at excellent results by abolishing unnecessary movements and that is the

whole secret of my work." But how many Stakhanovs and Smetanins can we find among the ordinary workers and what loss otherwise it would be if every misguided worker takes it as a mania (as they did in Russia itself) and begins to experiment. Taylorism has the advantage that the whole reform is the result of experimentation by experts and so it does not depend on the intelligence of the worker to experiment and initiate. Of course it is true that to some extent, in Russia, this is overcome by making other workers copy the results and methods arrived at by other and more capable workers.

Again some of the innovations seem too simple for us. For instance, in the building trade, the Russian bricklayer had traditionally prepared his own mortor and carried as well as laid his own bricks. Now these separate tasks were divided among separate members of a team. Moreover the layout of brick-laying was so altered (by having bricks placed on a raised plank beside the bricklayer, etc., that on the average he had to lift each brick only one foot instead of more than one yard, and the time expended in laying a given quantity of bricks was reduced to a third of its previous account. Still Stakhanovism achieved much and it has won ungrudging laurels from even those people that called it a 'stunt' before. Thus Mr. Hubbard who characterised it as 'a campaign of ballyhoo' had to admit that "it would be a mistake to suppose that the Stakhanov movement has been entirely barren in results in improving industrial efficiency". Stalin paying a tribute to these innovators as 'the simple and modest people without the slightest ambition to acquire the laurels of national figures,' claims that this movement has succeeded in "smashing antiquated standard of output and introducing amendments into the estimated capacity of industry and the economic plans prepared by the leaders of industry."

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REVIEWS OF BOOKS

INDIA BUILDS HER WAR ECONOMY, by P. C. Jain, Lecturer in Economics, Allahabad University, published in 1943, by Kitab-Mahal, Allahabad. Pp. 234. Price Rs. 3|8|-.

The publication in recent months of a considerable number of books dealing with economic problems of the war in India is most gratifying and the latest addition to the literature on the subject is by Mr. Jain who has written an interesting and very informative book on the wartime developments in Indian industry and finance. Starting with the expansion of existing industries on account of the war, the author proceeds to survey the growth of certain new industries which have been established directly as a result of the war. The first two chapters dealing with the growth of existing industries and of new enterprises contain matter which so far has been available only in a scattered and piecemeal form, and the reader owes a debt of gratitude to the writer for bringing together in a collected form all the available information on the subject. Mr. Jain has referred to the existence of excess capacity in a number of industries by which he means that there is a large amount of fixed plant or equipment lying idle in short periods. In this sense he believes that there is large excess capacity in a number of major industries and envisages its continuance in the post-war period. But the existence of so-called excess capacity is no indication that we have reached the full limit of expansion of those industries. On the other hand the present standards of consumption of various commodities are so low that there is not only room for existing factories but for the establishment of new ones. It is doubtful if these results could be achieved by the voluntary action of the industries themselves and it is here that the Government must play an active and important part in assisting industries and if necessary in compelling them to re-organise themselves. The author is however right in pleading for rationalization, for weeding out the inefficient and for the concentration of production only on a number of de-centralized efficient units. Mr. Jain's account of what could be done even at the present stage of the war to assist Indian industrialization is most informing and will amply repay perusal.

Chapter 3 is devoted to small and cottage industries while the author acknowledges the assistance which they have received from the War Supplies Department, he deplores the lack of attention which has been their fate for so long. Even today these industries which could have played a much bigger part in war effort have not been allowed to do so on account of lack of organisations and provision for research and training. The review of foreign trade during the war reveals some interesting conclusions. Our imports have suffered relatively more than our exports, and the proportion of manufactured goods in total exports has considerably increased and while their proportion in total imports has decreased. How far the Government of India were right in permitting so much exports which have been at the expense of Indian consumer, already deprived of his essential needs has not been

examined by the writer. The trends of India's foreign trade indicate two striking features both of great significance for the future and providing ground for optimism. One is that provided our price structure is maintained in tact, we need have no fear of the loss of our foreign trade; rather the problem in the future will be how much foreign trade we should seek to have. The second is that our foreign trade which in the past has been broad based may yet continue to exhibit the same trend, although necessarily during the war trade with empire countries has definitely increased. After a short chapter on our external debt and scheme of sterling repatriation which the author has fully endorsed, he proceeds to a very interesting survey of the war budgets from 1939 to 1943. His attitude to taxation is marked by a sense of reality and just appreciation of the special position of India. While Mr. Jain holds that none of the justification for the Excess Profits Tax found in England applies to India as Indian industry had been in a state of stagnation for a long period before the war, he reconciles to it on the ground of the needs of the government in wartime. Mr. Jain rightly criticises the manner in which the Excess Profits Tax is levied but as he himself has later recognised, some at least of the defects have since been rectified.

On the question of inflation the author takes a definitely eclectic view. He is somewhat severe against those who would apply to India such phrase as "galloping inflation," "the fatal spiral of runaway prices and wages," 'the hydra-headed monster of inflation' and so on, as catchwords and doing credit to no one. He believes that to inflation in India, which of course he does not deny, all sorts of factors have contributed, not the least of which is scarcity of consumers' goods. He also sets a larger store on the volume of hoards in India which according to him mitigate the effects of inflation. On all these naturally opinions will differ but Mr. Jain has made out a plausible case for himself. There is a very interesting account of the U.P. Scheme of Food Control and Rationing which will be found to have an application wider than that for which it is intended. In a final chapter on 'Post-war Reconstruction,' Mr. Jain has selected the problem of industrial unemployment for special treatment although that by no means is the most important. A programme of public works, establishment of employment exchanges, gradualness of transition from war to peace economy, are some of the suggestions which have been made. But in India the other problems of post-war reconstruction transcend in importance that of mere industrial unemployment. The whole future of our currency and price policies, problems of planning of agriculture, industry and foreign trade, prevention of depression and a host of other problems will call for urgent solution. Mr. Jain has also added a very illuminating account of how stock exchanges in India stood up to the war and how on the whole they have shown great vitality in the face of deepening crisis.

We heartily commend this very useful volume which gives a factual account of India's war economy in its varied aspects and is characterized by a realistic approach to economic problems.

P. S. LOKANATHAN.

War and Indian Economy, by Dr. V. K. R. V. Rao, published in 1943 by Kitabistan, Allahabad. Pp. 272. Price Rs. 3|12|-.

In this brilliant book Dr. Rao studies some economic problems created by the war in our country. In the very first chapter he has made it clear that a study of War Economy cannot be fruitful unless full account is taken of the political and social factors and it is this broad point of view which pervades the whole book and gives it a freshness and vigour.

Dr. Rao has made many excellent suggestions in this book and has taken a particularly balanced view as regards the problem of 'inflation,' we may draw the readers' attention to his view that it is mistaken to call 'inflation' in India as being *deficit-induced.* Those who hold the contrary view imagine that a huge deficit is concealed in the Government of India budget because the money spent on behalf of the British and allied governments in India is not shown in the books of the Central Government. There is, however, no justification for this view. The author admits that there is "inflation" in India but he rightly points out the necessity of maintaining a sense of proportion. Dr. Rao comes to the conclusion that a large number of causes have led to 'inflation' such as expansion in currency, actual shortage of commodities, hoarding and a failure of the price control policy, transport difficulties, speculative and psychological influences, among others. It is not possible to hoist the blame of causing inflation on any one single factor taken in isolation. As the author points out the core of the problem is the link between the rupee and the sterling. The Reserve Bank of India is compelled to issue rupees in exchange for sterling. This has a two-fold effect. Sterling accumulates to our credit in Great Britain and large quantity of rupees is pushed into circulation in India. That this work is done through the agency of the Government of India is immaterial because even if some private organisation was set up by the British Government to do work on its behalf the same result would have followed. If this statutory obligation to exchange sterling for rupees is removed from the Reserve Bank, the British Government will be compelled to find some other method of meeting their rupee finance and it might be less inflationery in character if it takes the shape either of borrowings on behalf of the British Government or of selling in the open market, the private British investments in Indian industry.

It is admitted that the war has increased the income of large sections of people but Dr. Rao emphatically points out that "not all the cultivators have shared in the benefits of this rise in prices . . . It is only the bigger farmers who have gained most from the war-time boom in Indian agriculture. Even they have not had unqualified gains." (p. 60.) These remarks of the author deserve to be carefully noted by the different provincial governments in our country who have decided to introduce agricultural income tax, raise the canal and irrigation due, force the cultivator to "save" more. These measures in view of Dr. Rao's analysis can only have the effect of intensifying economic distress and making the situation worse.

The book is written in an easy style. It deserves to be read by everybody interested in keeping himself well informed about the most

current topics, and it is bound to correct many false notions which have found currency in our country in recent months.

P. C. JAIN.

THE INSTITUTIONAL THEORY OF ECONOMICS, by Dr. Radha Kamal Mukerjee, Macmillan & Co., Ltd. Pp. 376. Price 10s. 6d.

This volume comprises the Sir Kikabhai Prem Chand Lectures which the author delivered at the University of Delhi in 1939-40. Its aim is to serve "as a contribution towards the reorientation of methods and concepts of economics on relativistic and institutional foundations and towards a co-operation in the social sciences, which might re-establish economic theory on the broad, humane path of the early masters to which the contemporary trends in ethics and philosophy also invite economics."

Reviewing the development of economics from the classicists to the modern schools, Dr. Mukerji points out that this discipline continues to move along the lines in which the master founders put it. Its method is the old abstractive, neglective method. It still takes for granted that man is motivated by self-interest and rationality. It does not take into account the "whole" social situation. "The result is that theories are developed which are logically consistent but which are little based on factural data, since inadequate, unrealistic and even false premises form their stuff." Economics thus becomes more or less econometrics.

This is in great contrast with the recent trends in the basal and borderland sciences, like geography, psychology, ethics, biology, etc. These have altogether changed their outlook. They emphasise the pattern rather than the parts. Their attention is focussed on the 'whole' situation. The doctrines of relativity and indeterminateness are gaining ground therein and the concepts of absolute laws is being given up.

The change of outlook in these sciences, Dr. Mukerji contends, demands a change of outlook in economics so that it might come into line with them. It is necessitated also by the fact that the economic system has undergone a great deal of transformation since the classicists wrote. Their social and institutional settings no longer obtain. Monopoly, trade unionism, wage-fixation, protectionism and economic imperialism have invaded the field of free exchange, free contract and state non-intervention. Also it has been shown that man does not act wholly through rationality and self-interest but a complexity of impulses and urges. What is consequently wanted now is that the fictions of the static economics be abandoned and the discipline should concern itself with the study of the 'whole' changed and changing situation. It should develop the gestalt or organismic outlook. This, it is true, will mean a loss of mathematical exactness, but the loss will, says Dr. Mukerji, "be more than compensated by economic insight."

The 'whole' situation of Dr. Mukerji, it may be noted, implies the whole cultural situation—the pattern of culture as evolved by the scological, economic and institutional setting. Economic activities are but

means to an end—the end being the realization of larger culture. Therefore a full understanding of those activities can be had only if we refer them to the socio-cultural ends as given by the existing culture. Says he "The more is economics permeated by the notions of inter-articulations of factors and hierarchy of patterns ascending to larger and larger wholes the more it will be in harmony with the most enlighten ed science and humanism of the time."

Dr. Mukerji's work is an excellent contribution on institutional economics. It gives a clear understanding of the nature and scope of that economics. It is more definite and comprehensive than any that have appeared thus far. It will set economic theorists athinking about their methodology and concepts.

G. D. K.

THE FORMATION OF FEDERATIONS, by S. G. Vaze. Published by Gokhale Institute of Politics and Economics, Poona 4. Price Re. 1|8|-.

This is the 1943 R. R. Kale Memorial Lecture which the author delivered under the auspices of the Gokhale Institute of Politics and Economics. In the first 25 pages the author after a brief introduction of 3 pages furnishes some data regarding the formation of federations and the making of constitutions in Canada, South Africa and number of other countries. But it is significant that he leaves out Australia. In the Continent of Europe he gives information regarding Soviet Russia, Germany, Finland, Czechoslovakia and Yugoslavia. In the last 6 pages the author gives his own conclusions. In summing up his conclusions the author considers the position of India and he believes that the Indian Federation should be as close as possible and as loose as necessary. However he concludes from his data that there is a strong tendency in all the federation for the central body to become increasingly powerful whether in the old or new states. In the United States of America in spite of the intention of the founders it has been now discovered that modern economic conditions and modern transport have so worked towards the integration of the whole nation that the federal institutions are now of much more positive importance than those of the individual states. The same conclusion is forced on us as regards the New European States where a general tendency is noticable to strengthen the sense of unity in the state even at the risk of arousing violent opposition amongst certain sections of the whole.

These conclusions rule out the suggestion of forming a loose constitution in India with residuary power in the hands of the Provinces. The present war has shown the great weakness of the autonomous provincial units and the strong pressure which the central Government can exercise against the wishes of the Provinces.

The author does not discuss the situation created in India by the declaration of the Muslim League for the formation of a separate state and their opposition to enter the Indian Federation.

ANWAR IQBAL QURESHI.

Soviet Planning and Labour in Peace and War, by Maurice Dobb. Published by George Routledge & Sons, Ltd., in 1942. Pp. 126. Price 4|- shillings.

This excellent little volume, which is a supplement to the author's "Soviet Economy & the War," consists of four independent essays on Economic Planning, Soviet Financial System, Work & Wages and Economic effects of War. Of these I consider the first to be the most instructive and the third the most interesting. In the former the author summarises the basic elements of planning and describes the evolution of the Gosplan from its rudimentary beginnings in the early '20's to the powerful engine of social control and direction it had become by the end of the '30's. The history of the Gosplan is full of lessons for capitalist countries in the throes of War, we have, for example to-day in this country something like a "Scissors Crisis"—a clash of interests between agricultural and non-agricultural classes—in respect of our food supply. This does not mean that we have to adopt the Russian solution for our problems, but the way the Russians have handled their important problems should considerably illumine our understanding and energise our efforts.

The third essay deals with Stakhanovism. Stakhanovism represents an entirely spontaneous movement on the part of the Russian worker to increase and improve the output of industry, agriculture and mining. I consider it to be one of the great achievements of Russian communism. Initiated and directed by the workers it has given the lie to one of the usual criticisms of the Russian State, *viz.*, its suppresses enterprise and independence on the part of the workers.

In the second essay and in some parts of the first the author deals with the intriguing subject of Soviet finance. I call it intriguing, for finance, in particular the Turnover Tax is used much more as an instrument for equating the flows of monetary expenditure to the aggregate cost price of goods produced by the community than to raise revenue for the Gvernment.

The last essay contains an impressive narrative of Russian efforts in the field of industry to meet the German onslaught from the West. The story of leap-frog factories has become something of an epic, Key factories situated in areas that were threatened by invasion were evacuated with their personal and equipment and set up in near sites, hundreds and sometimes thousands of miles East, in less than a month's time.

The essays have been written mainly to promote a better understanding of the problems of Soviet Economy, on the part of other nations. I think the book, along with the author's "Soviet Economy and the War," admirably fulfil that purpose.

D. Ghosh.

A STUDY OF THE INDIAN MONEY MARKET, by Bimal C. Ghose. Published in 1943 by the Oxford University Press. Pp. 295. Price Rs. 7|8|-.

In this interesting book the author begins by tracing the history of the Indian money market and its institutions. According to the author the rise of Joint-stock banking in India may conveniently be dated from 1809 when the Bank of Bengal was established. The author, however, is fully aware that some earlier dates have also been mentioned. At the beginning of the twentieth century there was hardly any money market such as is generally understood by this term outside the Presidency towns and in these places the money market was focussed on operations which passed through the European banks. Later the situation rapidly improved. As between Calcutta and Bombay money markets, in the beginning, Calcutta was by far the more important of the two, although in recent years Bombay has been gaining considerably at the expense of Calcutta.

Mr. Ghose gives a very interesting account of the development and functions of the Resere Bank of India, the Imperial Bank, and the other institutions in the Indian money market. Dealing with Exchange Banks he comes to the conclusion that many complaints of unfair competition and discrimination against Indian firms are unfotunately true. This will, therefore, be one of the urgent problems with which we will be faced in the post-war period. Not many will, however, agree with the author when he holds that the question of the direct linking up of the indigenous bankers with the Reserve Bank is not a practicable one. Such a linking should be perfectly possible if the Reserve Bank takes a broader view of its responsibility towards these institutions and the bill market.

Part II of the book offers a critical study of the functioning of the Reserve Bank and the other institutions in the Indian money market and Part III studies the long-term capital market. The book very ably fills a long felt gap in recent studies of Indian economics. It deserves to be read by all students of banking and finance.

P. C. JAIN.

THE INDIAN SUGAR INDUSTRY (1942 Annual)—edited by Mr. M. P. Gandhi. Published by Gandhi & Co., Bombay. Pp. 350. Price Rs. 5|14|-.

Mr. Gandhi's Sugar Annual is a highly useful publication. It is a book of reference on the Sugar industry. Like its predecessors it contains a lot of statistical and other informations. The treatment is both historical as well as critical. The author has dealt with the current problems like Sugar Control, Marketing of Sugar, International Sugar Agreement, etc., in an unbiased and impartial spirit. We commend it to all students of the subject.

K. L. G.

REVIEW OF INDIAN FISCAL POLICY, by D. K. Malhotra, Lahore, 1943.

This booklet is an attempt at giving a short and simple account of Indian Fiscal Policy from the beginning of the 19th century down to the present time. The first four chapters, *viz.*, Character of Fiscal Policy up to 1923, Factors shaping Fiscal Policy during 1924—43, Genesis and Rationale of Protection, and Industrial Development under Protection (1924—39) are little more than short summaries of relevant chapters from the Indian Fiscal Commission's Report and from certain well-known books on the subject such as those of B. P. Adarkar and B. N. Adarkar. In Chapter V, Critical Estimate of Discriminating Protection, he has rather closely followed the view-point adopted by B. P. Adarkar in his recent book, Indian Fiscal Policy. In Chapter VI, War and Indian Industries, the author traces the effects of the War on various industries and makes a reference to the activities of the Roger Mission, Eastern Group Conference and Supply Council and to the recommendations of the Grady Mission. And in the last Chapter, he discusses the future of Indian Fiscal Policy in the light of the war-time developments and experiences, and rightly suggests that a much bolder Fiscal Policy together with a comprehensive Policy of State Planning and State Ownership or Regulation would be needed to speed up all-round industrialization in India. The book is enriched by a short Appendix which contains the statistics of the increase of output of several important industries.

There is one serious inaccuracy which has been found, *viz.*, page 22, paragraph 3, 12th line, the duty on British printed goods is 17½ p. c. and not 7½ p. c. There are also a few spelling mistakes such as "can" for "cane" (p. 28), and "same" for 'some" (p. 64). They are no doubt due to the printer's devil, but in a small book of this size they could easily be avoided.

On the whole, the book is a useful addition to the literature on the subject and it should be quite helpful to those who want to have the main fact of fiscal policy and industrial development in India in recent years.

H. L. DEY.

ECONOMICS FOR COMMERCE, by J. K. Gifford. Published by the University of Queensland, Brisbane. 1942. Pp. 417 + ix. Price not mentioned.

The book under review has been written with a special purpose, namely, "to provide a general introduction to economics suitable for those who wish to study practical economic problems in banking, business and public administration." (p. iii.) This accounts for the differences, in contents, method of approach and general mode of treatment, between this book and the customary text-books of Economics with which the English-speaking world is acquainted. A student of pure Economics would probably regard this book as lop-sided; but it would certainly be very helpful to the business man and public servant for whom it is primarily meant.

The author first discusses certain introductory matters and then soon passes on to a preliminary discussion of money, prices and amount sold. Demand has been discussed in three chapters (IV—VI) and Willingness to Sell spreads to five chapters (VII—XI). During the course of this later series of chapters, the author examines short period equilibrium, cost of production, localisation of industries, monopoly and oligopoly. Risks and Profits, Rent and Real Estate Value, Index Numbers, Money and Capital, Monetary Aspects of the Theory of Prices and Interest Rates follow in order. The last two chapters have been devoted to International Trade and Public Expenditure and Revenue. As would be evident, the plan of the book is an ambitious one and the largeness of the scope of the work tends to impart it a character of sketchiness, which at times becomes almost sickening. But this is a property from which an exhaustive text-book cannot probably extricate itself completely. The author shows good grasp of the subject and his treatment is at places original.

A special feature of this book is an extensive use of primarily Australian but also of American and British statistics for illustrating economic phenomena. Reference might in this connexion be made to charts relating to prices, money and production; certain business cycle statistics which appear in large numbers; statistics relating to theory of prices; and production statistics relating to diminishing extra returns. The author has discussed money and its influence on prices and production in a preliminary way at a very early stage, which makes the general explanation of prices more realistic. A prominent place has been given to a theoretical and descriptive study of business cycle, with special emphasis on anti-depression policy. The general conclusion drawn by the author is that widespread depression can be caused not merely by a contraction of the money flow but also by a failure of money flow to expand sufficiently in a growing economy, that recovery can be brought about from any depression sooner or later, and in fact fairly soon, by a sufficient but moderate increase in the flow of money and that depression can be largely prevented by sufficiently prompt and extensive action to maintain and gradually increase the flow of money. It has been argued that the maladjustments of the boom can be largely prevented in the future by lessening the serverity of depressions and so preventing the sudden increase of demand and production which is characteristic of the revival and which leads to the spread of unreasonably rosy hopes and therefore to maladjustments. An effort has also been made to embody the fruits of the recent controversy on the subject of interest in the explanation of this subject. In this connexion the author has avoided, on the one hand, what he considers to be the errors of the neo-Austrian school in not explaining fully the influence of money on interest rates, and, on the other, those of Keynes in exaggerating the influence of money, underestimating the influence of willingness to save and attempting to describe certain economic processes in mathematical form.

We recommend this book strongly to businessmen, public servants, administrators and advanced students of commerce to whom it would prove highly useful.

A. N. Agarwala.

BOOKS RECEIVED

INDIA BUILDS HER WAR ECONOMY, by P. C. Jain. Published in 1943 by Kitab-Mahal, Allahabad. Pp. 234. Price Rs. 3-8-0.

[Reviewed in this issue.]

A STUDY OF THE INDIAN MONEY MARKET, by Bimal C. Ghose. Published by Messrs. Oxford University Press, Calcutta. 1943. Pp. 295. Priced Rs. 7. 8 as.

[Reviewed in this issue.]

WAR AND INDIAN ECONOMY, by V. K. R. V. Rao. Published by Messrs. Kitabistan, Allahabad. 1943. Pp. 272. Price Rs. 3|12|-.

[Reviewed in this issue.]

INDIAN LABOUR AND POST WAR RECONSTRUCTION, by M. N. Roy. Published by Dr. A. P. Singh, Lucknow. 1943. Pp. 58.

[To be reviewed.]

CURRENCY INFLATION AND ITS CAUSE AND CURE, by J. C. Kumarappa. Published by the author at Wardha. 1943. Pp. 26. Price 8as.

[To be reviewed.]

MARKETING IN INDIA, by K. L. Govil. Published by Gautam Brothers & Co., Ltd., Cawnpore. 1943. Pp. 438. Price Rs. 7.

[To be reviewed.]

THE ECONOMICS OF INDIAN AGRICULTURE, by Dr. B. V. Narayanswamy and P. S. Narasimhan. Published by Messrs. Rochouse & Sons, Ltd., Madras. 1943. Pp. 298. Price Rs. 3. 8as.

[To be reviewed.]

NALANDA YEAR BOOK AND WHO'S WHO IN INDIA. Published by Messrs. Nalanda Press, Calcutta. 1943. Pp. XIX plus 512. Price Rs. 5. 8as.

[To be reviewed.]

ANNUAL ADMINISTRATION REPORT OF THE DEPARTMENT OF AGRICULTURE, UNITED PROVINCES FOR THE YEAR ENDING 30TH JUNE, 1943. Published by Superintendent, Printing & Stationery, U.P., Allahabad. 1942. Pp. 52. Price 6as.

[To be reviewed.]

CIVIL SERVICE STAFF RELATIONSHIPS, by E. N. Gladden. Published by Messrs. William Hodge & Co., Ltd., London. 1943. Pp. 184. Price 12s. 6d.

[To be reviewed.]

RABINDRA NATH TAGORE ON RURAL RECONSTRUCTION, by Sudhir Sen. Published by Visva Bharati, Calcutta. 1943. Pp. 128. Price Re. 1. 8as.

[To be reviewed.]

LAND AND ITS PROBLEMS, by Sudhir Sen. Published by Viswa Bharati, Calcutta. 1943. Pp. 165. Price Rs. 5.

[To be reviewed.]

OUR ECONOMIC PROBLEM, by P. A. Wadia and K. T. Merchant. Published by New Book Co., Bombay. 1943. Pp. 536. Price Rs. 6. 8as.

[To be reviewed.]

WAR AND PRICES, by L. Nemenyi. Published by Rai Sahib Gulab Singh & Sons, Lahore. 1943. Pp. 44. Price Re. 1. 8as.

[This pamphlet was written in March 1943 when the controversy about inflation was at its height. The author offers a synthesis of the different points of view which were placed before the country at that time. The views of Prof. C. N. Vakil, Syt. G. D. Birla, Sir Tracy G. Jones and Mr. V. M. Bhatt have received the author's detailed attention. He has performed a useful service by pointing out in clear terms that exaggrated pictures about "inflation" do more harm than good, and a sense of proportion has to be maintained. But most students of the subject will probably not agree with the author's defence of Government policy. Moreover, his recommendation that the provincial governments and states should exert a deflationary pressure by additional taxation and a savings drive has not been justified by subsequent events. It has become clear within the last few months that the only result of such a policy will be an intensification of economic distress. It is possible to differ with the author's point of view but the pamphlet will amply repay a close study.]

INDIA AND INTERNATIONAL CURRENCY PLANS, by Dr. V. K. R. V. Rao Published by Messrs. S. Chand & Co., Delhi. 1943. Pp. 55. Price Re. 1. 8as.

[This booklet offers the reader a critical study of the different International Currency Plans which have been placed before the public in the past few months. The author clearly brings out the chief points in the various plans, and on the whole prefers the American Plan, though it is also not free from defects. In a most brilliant fashion the booklet studies the implications of these Currency Plans for India. Most students of Economics will agree with the conclusions of the author. Dr. Rao has pointed out that in the post-war period we are bound to a creaditor nation and India "should be prepared to liquidate her credit balance by importing more goods . . . (but) It will not be profitable for her to be supplied obsolete machinery or machinery at exorbitant prices simply because she has a credit balance. At the same time she will not be prepared to accept payment in consumer's goods . . . . The only alternative will be for her to curtail her exports; and

it will be far more profitable for her to adopt this alternative than to obtain payment, either in obsolete capital goods or competitive consumption goods." Secondly, in the interest of industrialisation we cannot give up the policy of tariff protection and, therefore, we shall be unable to accept any Currency Plan which is inconsistent with this objective. Finally, the author very correctly points out, in the post-war period we would not like to follow a policy of exchange stability. It shall not be in the best interests of the country. India, if she had her way, would secure an equilibrium of internal economy by adjusting her foreign exchange rates according to the prevailing conditions. Any Currency Plan which denies us this right is not acceptable. This timely booklet deserves to be read by the public as well as by serious students of Economics.]

THE TREND OF PROFITS. A Factual Analysis, by Dr. M. H. Gopal, Mysore University. Published by the author. 1943. Pp. 49.

[In this essay, which, it is pointed out, forms part of a bigger volume, the author offers a factual study of profit trends in India and compares them with those in the U. K. and the U. S. A. The author is fully aware of the paucity of statistics in our country and is, therefore, forced to confine his attention to Joint Stock enterprise, figures about which are published. Moreover, in the absence of a better method and fully aware of the difficulties of relying upon them Dr. Gopal has been forced to make use of declared dividends as indicators of prosperity. The results have been very satisfactory because though the declared dividends may not give very correct idea of the *absolute* position they do serve a useful purpose in showing *relative* changes over a number of years. The author has come to the conclusion that the first period 1918 to 1922 was the best and for all industries an average dividend of 25.1 per cent. was declared on ordinary share capital. The dividend in the next period 1923 to 1929 declined to 12.6 per cent. and it further declined to 8.6 per cent. in the subsequent period from 1930 to 1939. The booklet contains a number of informative tables. We strongly recommend it to all our readers.]

PRINCIPLES OF ECONOMIC PLANNING—Eastern Economist Pamphlets No. 1. General Editor, Dr. P. S. Lokanathan. Issued in 1943. Pp. 54. Price Re. 1.

[In this brilliantly written booklet some fundamental problems of economic planning are examined from a strictly practical point of view. Making use of the Douglas-Cobb formula and testing it with published figures for some foreign countries the author comes to the conclusion that for India the Ratio between new capital investment and increased national income is 2:1, so that, assuming that our national income in 1943, at pre-war prices, is Rs. 3000 crores and we wish to double our national income in five years, it would be necessary to secure a new investment of Rs. 900 crores in the first year and somewhat more in the subsequent four years. This gives us some idea of the capital requirements of a five years plan in our country. Incidentally it may be mentioned that this estimate, obtained on scientific basis, discredits some thoroughly fantastic estimates which had gained currency in our

country. The author of the booklet makes it clear that, firstly, it may not be possible to make such a large investment at once in which case we may proceed slowly and, secondly, nearly two-thirds of this investment will have to consist of foreign goods secured either by borrowing or by utilising our balance of payments and the resources of the sterling fund to this end. In the last analysis the shortage of foreign exchange and the rate at which the foreign producers can supply us machinery and technical equipment may determine the speed of industrialisation of our country. It, however, needs to be emphasised that after all we may not be so short of foreign capital or machinery as is visualised by the writer. In the post-war period the machine producers in industrially advanced countries of the west may be only too glad to supply us large quantities of technical equipment. We can pay for these out of our sterling funds which may exceed Rs. 1000 crores and out of borrowings in the foreign money markets to which there is no limit on purely theoretical grounds.

It has been clearly emphasised in the booklet that in order to maximise our national income it is absolutely necessary to undertake occupational planning which will mean, in the case of India, a systematic transfer of population from primary industries (such as agriculture, forestry and fishing) to secondary (as manufacturing, mining and building) and tertiary (such as commerce, transport, etc.) industries. Moreover, "under conditions of relative scarcity of capital and abundance of labour, the adoption of labour-using and capital-economising methods would secure the adaptation of scarce means to unlimited ends or to the combination of the productive factors in proper proportions. It is the task of inustrial technique to reconcile this conflict between full employment and higher *per capita* output."

The author however is on less safe guard when he says that "the Planning Authority will have to ensure that the variations from the *representative* (Italics ours) capital intensity (*i.e.*, capital per head of working population) in the various parts of the economy are kept as small as possible . . . for only thus can we achieve maximum economy of capital and maximum production." (Pp. 33-4). The *representative* figures are merely a mathematical trick and in a country like India where conditions differ so widely, "capital-intensity" may be different for the same industry in different localities. The greatest economy of capital, under these conditions, will be obtained by having a large number of different levels of capital-intensity not necessarily concentrated round a *norm*. The author, however, is thoroughly justified in giving a warning against giant factories in all avenues of production if technical and economic considerations do not justify it. Secondly, the author has not devoted adequate attention to the problem of over-centralisation and the neglect of duty by paid officers both of which have greatly handicapped the Russian Plans. We shall have to be extremely careful in our country that productive efficiency does not suffer because of these two evils which necessarily accompany centralised planning of the type visualised in the contribution under review. This booklet of fifty-four pages is full of thought-provoking ideas presented in a most direct manner and we recommend it to all our readers with full confidence that its perusal will repay not only the general reader but also the expert.]

ERRATUM

On the first page of the cover of the October and December, 1943, issues of the **Journal**

For

P. C. JAIN
(*Managing Editor*)

Read

A. N. AGARWALA
(*Managing Editor*)

P. C. JAIN
(*Offg. Managing Editor*)

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OUR FOOD PROBLEM

BY

PROFESSOR S. K. RUDRA, M.A. (CANTAB.)

It may be said with truth that barring a few economists, doctors, publicmen and others, no one has taken the matter of the people's food into serious consideration. Laissez-faire has been the general tendency, especially in respect to people's personal way of life. Nothing is regarded as so intimately personal as an individual's food. Not only in India, but even in more advanced countries, till very recently, Government interference with people's food habits would have been regarded as the height of bureaucratic interference and an infringement of personal liberty. In India it was known that there was hunger. Want, causing distress, was admitted. But it was assumed that this was due to the individual's own fault. It was imagined that if only people worked hard enough, and long enough, or if they had forethought enough that, they would not starve, and be reduced to distress. It was not analysed that hunger and want may be due to other causes also. Involuntary poverty, involuntary employment or under-employment, were not recognised or admitted as possible economic phenomenon.

The fact, however, must be faced that, neither the public, nor the State in India, till recently, gave sufficient thought, or even any thought, to this all important matter of the people's food. We had no Food Policy for the nation. True, the subject of nutrition was being considered, but it was particularized to certain Research Laboratories only. Naturally, therefore, our agriculture, which is nearly the exclusive source of our food supplies,

was not fostered from the point of view of serving the basic needs of the people, namely, their dietic needs. We depend surprisingly little on marine products to furnish our food requirements, unlike island countries. Except for rice, which we imported mainly from Burma to the extent of 2 million tons annually, we obtained comparatively little in the matter of food and drink from foreign lands for the population as a whole, drugs and medicines apart.

The following table shows the imports of (1) food and drinks, and (2) drugs and medicines in India in 1942-43, as compared with those in 1938-39 (the pre-war period) according to the "Account of Sea-borne Trade and Navigation of British India":—

Articles.		*Value in Rupees*	
		1938-39	1942-43
Food and Drinks	...	196,925,854	48,517,702
Drugs and Medicines	...	22,053,230	14,703,762

Apart from his customary practice of sowing for himself sufficient food crops, the peasant mostly followed the vagaries of the market price as best as he could. If jute or cotton or sugar or tobacco or hemp or oilseeds paid him more, he sowed these crops. It paid him best to do so. After all, he had imperative calls to meet. His revenue, his rent, his ancestral and his own debt, besides his current domestic, ceremonial and productive needs had to be supplied. For several years, and in the depression period particularly, it hardly paid him to grow any crops, including food crops. This is evident by the price movement of any representative commodity, say wheat, in any representative market, say Chandausi in the U.P., both of which have been selected more or less at random. Harvest prices only are given. It is at this price that the peasant was usually compelled to sell his produce. In 1932, this price was Rs. 2-4-6 per maund; in 1933, it was Rs. 2-12-6 per maund; in 1934 Rs. 2-7-0 per maund; in 1935 again Rs. 2-7-0; and in 1936 Rs. 2-10-0 per maund. Prices of other food-grains moved very much in sympathy with the prices of wheat, except at certain extraordinary periods. So that, roughly speaking, the above-mentioned fact about wheat, can be taken to be sufficiently indicative of the general trend of the prices of all agricultural commodities. The sad plight of the peasantry in the United

Provinces on account of such low return for their investment and labour can well be imagined. But for the remissions given by Government to our peasantry in these provinces, their economic plight would have been worse. In 1931-32 an amount of no less than Rs. 5,24 lakhs had to be remitted.

Therefore, for the raising of food crops for the incessantly growing population, there was no fixed policy. Price equation was the only criterion. It must be acknowledged that while much effort has been put forward, through various important Departments of Government, to extend and improve our agriculture, we have not been able to modernise our agriculture due to our inheritance laws, land tenure systems, growing population, and lack of adequate industrial and mining development in the country. In fact the extension of area under food crops has not kept pace, being 9 per cent. as against an increase of population of 21 per cent. between 1900 and 1934 for the entire country. Our yield has not grown progressively with the pressure on the soil. Indeed, in respect to most of our staple crops, productivity has declined in our Province as well as in others. Soil erosion and cattle decline also have affected the position adversely. Of course, irrigation has added much, especially in certain areas, to agricultural security. Improvement in crops like sugarcane, cotton and wheat too have shown marked progress, though we have to bear in mind that only about 6 per cent. of all the crops in India are under improved variety. So, as a whole, it cannot be characterized that we have modernized our methods of cultivation. Not, if we consider what is being accomplished in agriculture abroad.

It is only now, when we have been caught up in the full vortex of a titanic war, that both the peoples, and Government in particular, have come up face to face with the food problem. The problem is as urgent as it is difficult of immediate solution. "Grow more food," though comforting to our thoughts, is not so ready a solution of our wants. To grow enough food, within a short period of time, so as to make an appreciable difference to the food situation as a whole, is not easy. The supply of some types of food-grains, and especially vegetables, can be increased appreciably, to meet particularized needs. But in order to solve adequately, and

permanently, the food problem of the nation as a whole, we shall have to radically re-orient our agricultural policy. The Food Conference of the United Nations at Hot Springs, U.S.A., in which India took an honourable part, lends the hope that the matter of the people's dietic needs will be regarded as one of the basic subjects for national and international collaboration after the War.

India, even before the war, was not a self-sufficient country. It is a known fact that with the change in the technique of modern warfare, a country, if it is so to stand up to the rigours of war, requires that its structure and peoples be keyed up to certain levels, of educational, agricultural, industrial and medical standards. If a country is not so tuned up, it will not find it easy to go through the onslaught of modern war. This I feel certain is what has happened to this country. Even from the economic point of view, we were not adequately prepared to face the unprecedented calls made upon us. Thanks to our brave Defences, it is merciful that things have not gone worse with us. Could we, for instance, have stood up to half the death and destruction that was showered down upon the peoples of Great Britain? I need not contemplate the answer! We were little prepared.

The food aspect is as important and fundamental a factor in the economics of modern warfare as guns and ammunition. We did not visualize the food situation rightly. We awoke to it piecemeal. We thought mainly in terms of the Army. Then, probably, we considered some neighbouring countries. Then we took to thinking provincially. The logic of the situation, due to a complicated variety of factors, has painfully taught us that the food problem is fundamental. We have also now learnt that it is not fractional. The Army, the people and the country, and not bits of it, have to be treated as a whole, one and indivisible. We cannot treat the one aspect of the question, neglecting the other. If we do so, we shall do so at our peril. In such an event we are bound to create grave problems. Indisputably, the Army stands first. But the nation behind the fighting zone, if we can in these days of aerial bombardment so demarcate regions, stands close to it. Indeed, the Army and the people, from whom it springs, are organically one and the same. Food needs of the civilian population have therefore to be carefully studied. They have to be provided for as part of

War programme. Government, and people alike, have to educate themselves up to this point. The Home Front, in many respects is no less vital to a totalitarian war than the actual front. Sacrifices have to be called for, from all sides. They must be made, and met.

This implies that we have to view the problem as a whole. Our given food resources must serve our total needs, military and civilian. Deficit areas must be served by surplus areas. Indeed, we have to enlarge our horizon further afield. If Ceylon needs rice, we must help to feed it. If Iran or Iraq needs our wheat, we must share it with their peoples. Similarly, if the peoples of India need food supplies, the United Nations, who have surplus stocks of wheat, should spare us some. Shipping difficulties there are, admittedly. But the dire needs of a people count for not a little. The problem is therefore one. Big views, with big minds, and not parochial views, with little minds, alone can hope to cope with the question adequately, and solve it victoriously.

The problem of food supply in the case of deficit areas becomes especially intricate. The City of Lucknow in the U.P. is one of the deficit areas and we shall get a clear idea of the complexities of the problem by studying the position of this city in some detail. Lucknow depends for its food supply not only upon its immediate environment in the district and the province but it also draws its supply from the other provinces as well. The basic food-grains are obtained in large quantities from the various districts of the United Provinces and even from the Punjab. Wheat including wheat products, for example, are imported from the districts of Hardoi, Sitapur, Gonda, Bahraich, Kheri and Basti in the U.P. and from the Punjab. Rice is obtained from Bahraich, Basti, Nowgarh, Shohratgarh, Barhni, and Dehra Dun, etc. Gram is supplied by Gonda, Bahraich, Jhansi, Jalaun, Hardoi and Bara Banki, etc. Fruits have to be imported from Naini Tal, Muzaffarpur and Kumaon in the U.P. and Ahmedabad, Chaman, Nasik, Poona, Nagpur and Kashmir.

The question of obtaining proper supplies offers some difficulty. We have to look after the trade channels which usually handle this supply, its timely transport, and the quality of the commodity. Sudden dislocation or suspension of trade channels cannot readily be substituted by new ones. New contacts take time to establish them-

selves. During war such changes naturally take more time. If existing channels of trade are suddenly changed it might impede the free flow of supplies. As regards transport, in 1942, for example, out of total imports no less than nearly 50 per cent. of wheat, 64 per cent. of ata, and 82 per cent. of rice was transported to the city of Lucknow by railways. Millets and pulses up to 14 per cent. and paddy up to 45 per cent. came over by the railways. Roads were used, mostly for bringing fruits and vegetables from the adjoining areas and very small quantity of food-grains were brought by road. The bottlenecks in the transport system have been one of our severest handicaps and we shall have to improve our transport system if proper supplies are to be ensured.

In view of the fact that supplies are short and a population of nearly $4\frac{1}{2}$ lakhs has to be supported (as against 3,61,000 in 1938-39) rationing of the available supply offers a way out. For purposes of the Ration unit, the population has been divided into two categories—adults and children: the total adult value at the rate of one child being equal to half adult, comes to 3,78 thousands in 1943 as against 3,06 thousands in 1938-39, indicating an increase of roughly 18%.

In Bombay the population has been divided into three age groups, namely, up to 2 years, 2 years to 12 years and 12 years and over. In more advanced countries they have all manner of division. They go by sexes, by civil condition, and the like. But these are refinements of statistical analysis and administrative fineness which we have not yet attained.

It is important to know the quantities of food supplies in Lucknow before the War and now. The figures given below are not complete and are rough approximations.

Articles.	(Figures in thousand maunds) 1938–39	1942—43	Increase or Decrease
Cereals A			
Wheat, rice, paddy, ata ... etc.	1,506	1,569	+3·[illegible]%
Millets and pulses ...	602	716	+18·9%
Vegetables	904	1,031	+14·0%
Sugar	153	102	−33 %
Gur	129	306	+137·0%

We can thus see at a glance as to what has happened to our supplies in contrast to our increased population. The population of Lucknow (including Cantonment, Ganeshganj, and the City proper) has increased by 18% in units of adult value, while the supply of cereals A (including wheat, ata, rice and paddy, etc.) has increased by 3·5%, of millets and pulses by 18·9%, of vegetables by 14% and of gur by 137%. The supply of sugar, on the other hand, has decreased by 33%. This means that except gur and millets and pulses, no other staple commodity has kept pace with the rising population. In terms of per capita consuption, the present supply means about 7·2 chataks of cereals A, against 8·4 chataks in 1938-39, 3·3 chataks of millets and pulses which is equal to pre-war level, 4.7 chataks of vegetables against 5.0 chataks, ·47 chataks of sugar against ·9 chataks and 1·4 chataks of gur against 6 chataks in the pre-war period.

However, it is not merely a question of volume of supplies. The matter of price also is important. I will illustrate the point with reference to the position of wheat for the war years. In Lucknow, in 1938, the price of wheat was Rs. 2-14-2 per maund; in 1939, it was Rs. 3-4-2; in 1940, it was Rs. 3-14-4; in 1941, it was Rs. 4-4-8; in 1942, it rose to Rs. 6-12-0; and in 1943, it has reached as high as Rs. 12-3-1 per maund, which is the average of the prices of the last ten months.

Rising prices must inevitably impinge upon the standards of living of the community. Those in low-income groups, and especially those with fixed salaries, suffer the severest in times of rising prices. We do not know the income distribution of Lucknow City. While it is the city of Nawabs and Rajahs, it is also the home of the humble and the poor. We have no cost of living index number for Lucknow in general. However, we have such an index for the neighbouring city of Cawnpore for mill-workers, and we have one for low-paid Government servants in Lucknow. We can, therefore, measure to some extent how the cost of living has changed. The cost of living index number (interim) at Cawnpore for the week ending October 31, 1943, is 344.4 (base, August 1939=100). This means that the rupee has fallen in value from 16 annas in the pre-war period to about 4 annas 7 pies now. The index for low-paid Government servants (with an income of below Rs. 30/-) at Lucknow for the

week ending October 31, 1943, with the same base is 341 for food articles, 376 for non-food articles, and 349 for all articles. This means, in common language, that in their case, the rupee has fallen from the pre-war value of 16 annas to 4 annas 6 pies at present.

To meet enhanced cost of living, there are arrangements promulgated in advanced countries of the world, to assist the poorer sections of the nation. Fairly widespread grants to certain categories of people are given, directly or indirectly, by way of dearness allowances. To some extent this is being done in India also. Others are expected to earn higher wages during such times. They are thus expected to meet the burden of enhanced prices. As employment is usually good during such period, many people who would either be out of work, or would enter work at a later age, obtain employment. So the family income tends to increase. This helps the family budget. It is people on fixed salaries, the middle and the lower middle classes who are not covered by dearness allowances, that suffer most. Such categories of people mostly reside in towns and cities. They form a substantial portion of any Indian city. In a provincial headquarters and a city of the type of Lucknow, their number must be considerable. They deserve particular attention. We have, unfortunately, little concrete knowledge about their present economic condition.

In order to safeguard the interests of these people an effective policy of price control is necessary and, under certain conditions, it depends upon rationing for its success. Rationing, however, is a difficult and complicated process and it requires a high degree of administrative efficiency coupled with a high sense of duty and honesty. It also demands intelligent co-operation from the public. A ration system should aim to give per age, and wherever possible, according to vital circumstances, a unit of ration, sufficient in quantity, and adequate in quality, to meet the physical needs of the average consumer. This is a heavy responsibility. In the case of the City of Lucknow, the average quantity available per adult is 7.2 chataks of cereals and 3.3 chataks of millets and pulses under an equitable distribution. Under the rationing scheme, it is gratifying to note that every adult member of the rationed population is allowed to purchase a ration up to a maximum of 12 chataks as follows:

Wheat	up to	6	chataks
Gram	,,	6	,,
Barley	,,	6	,,
Rice	,,	8	,,
Millets	,,	12	,,
Ata	,,	12	,,

It is evident from these statistics that, leaving aside the problem of purchasing power of the people, on the supply side at least, the poorer sections of the population are offered a higher combination of food articles than even the most equitable distribution under a Laissez faire economy could have guaranteed.

In India, I suppose if the quantitative factor alone is sufficiently provided, it would mean great success. Qualitatively, we have not even begun to think of the question. But if the war should last long, which we pray it does not, the qualitative factor will become important. We shall have to ensure that each one of us gets enough for an efficient existence.

Apart from the question of the adequacy of the ration unit, quantitatively and qualitatively, we cannot disregard the price factor. The price fixed for the various commodities should be such, as may be within the reach of the poorer sections of the community. The ration cards entitling the owner to buy certain quantities of food-grains, would be of little comfort to him, if the rates at which these were sold were beyond his means.

Supplies are fundamental to the process of rationing. The first requisite is that there should be enhanced production to meet the greatly enhanced demand. "Grow more Food," is a campaign that has to be pressed forward, all the while. But apart from patriotic appeal to the cultivators of the soil, economic inducement is the only thing that in India, under the present circumstances, can really be the most effective. The cultivator, while being grain-minded, is not impervious to the attraction of money. Moreover, our cultivators have been fully aware of comparative value of non-agricultural commodities, in parity with their own produce. They have come to realise that while the price of their own produce has gone up, and are happy about it, they are not so satisfied when they calculate

and convert these, which they readily do, in terms of value of articles they need. They find that these articles, mostly of manufactured type, have gone up in price much more than their agircultural produce. So they hold up their produce for better prices. This causes artificial shortage. Moreover, hoarding by the petty shopkeepers and wholesalers also reduces the supply. We have to increase supply by taking care of these factors and, above all, public co-operation can give us the greatest help in this direction. It is only then that we can effectively solve our food problem.

LABOUR IN WARTIME.

BY

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More than four years of global warfare has disturbed the stability of economic life and naturally enough labour has not escaped its impact altogether. Unemployment, both among the middle and lower classes, has practically disappeared; thanks to the demand for technical personnel for war purposes, about a hundred thousand unskilled workers have become skilled at State expense; thousands of able-bodied men who would have swelled the ranks of industry, have found profitable employment in the army; what with the high prices of food-grains and the consequential "Grow more food" campaign, and what with the military contractors scouting for labour for the construction of aerodromes and runways, roads and barracks, and there has been a shift of labour from one industry to another, and coal mining in particular is feeling the pinch of trained miners, while the jute industry is even prepared to pay its workers in periods of enforced idleness caused by the temporary unavailability of coal, lest its workers disperse to other fields of activity. This drift of labour from one place to another has been aided by enemy air raids and the fear of invasion in Assam, Bengal, Madras and Ceylon. To prevent the exodus of workers from places liable to air raids, war risk allowance has been granted by certain industrial concerns like the Tatas at Jamshedpur; the Government had to pass an Essential Services (Maintenance) Ordinance to safeguard the functioning of vital services like the municipality, electric and water supply, railways, etc. An attempt has been made to keep up the morale of workers by the introduction of the War Injuries Scheme and the War Injuries (Compensation Insurance) Act which guarantee monetary compensation to all in case of injury by enemy action. The fantastic levels to which the prices of essential food-grains shot up in certain provinces may also have induced some workers to migrate to neighbouring provinces where,

thanks to restrictions on inter-provincial movement of goods, the prices may have remained only moderately high. An attempt to avert this movement of labour has been made by employers providing food-grains to their workers at concession rates. To keep up the production of essential war requirements, the movements of skilled labour have been controlled by the National Service (Technical Personnel) Ordinance. The dearth of workers in coal mining has been partly met by allowing women to work underground, at first in C.P. and subsequently in Bihar and Bengal, which had been prohibited before the War.

During the war labour has lost certain privileges which it enjoyed before and has gained others which it did not possess before. I have already said that the freedom of movement and the right of bargaining for wages on the part of skilled labour (technicians) have been restricted in the interest of war production; the prohibition of underground work for women has been withdrawn, the power of resorting to strikes to gain its objective has been considerably curtailed, if not abolished altogether; many of the experienced and trusted labour leaders have been put in prison for attempting to sabotage production. On the other hand, an annual Tripartite Labour Conference and a quarterly Standing Labour Committee have been set up, whereby labour has secured a forum where it can meet capital on an equal footing and ventilate its grievances; the machinery for adjudicating labour disputes has relieved it of the necessity of taking the risk of an unsuccessful and costly strike, and has given an opportunity to labour leaders of learning how to put the case for labour before the public, and of demonstrating to the rank and file the advantages of labour organisation. The high profits earned by employers during the War and the excess profits tax to which they have been subjected, have induced the employers generally to adopt ameleorative measures and meet the demands of labour half-way. A Labour Member in the Viceroy's Executive Council with a Labour Welfare Adviser and other assistants under him, and Labour Commissioners in the provinces are watching the interests of wartime. Labour legislation has been hastened; an Industrial Statistics Act is on the Statute book, recognition of trade unions is on the legislative anvil, sickness insurance is being seriously enquired

into and the question of social security for labour is in the air.

The most outstanding fact of wartime, at least in India during the last year and a half, has been the steep rise in the cost of living. No doubt in a huge country like India the rise has not been uniform at different places as the following statistics will show:—

Working Class Cost of Living Indices
Base : August 1939=100

	Madras.	Bombay.	Lahore	Cawnpore.	Nagpur.	Jamshedpur.
July, 1943	185	225	275	341	361	429

Part of the wide dispersion is no doubt due to differences in the method of compiling the indices followed in different provinces. As against this rise in India the cost of living index in Great Britain showed comparatively little movement, the indices for 1939, 1940, 1941 and 1942 being 100, 118, 128, 128, respectively. While the living cost has risen considerably, the prices of food-grains like rice have risen out of all proportions. Thus in August, 1943 when the cost of living index for Jamshedpur and Jharia (with the average of 12 months ending July, 1939=100) stood at 559 and 489 respectively, the indices for the price of rice recorded 995 and 668 respectively. How has labour met the situation thus created? The problem of steeply rising cost of living has been met in one or other of two ways. The first is the freezing of the prices of essential foodstuffs like rice, ata, pulses and sugar at the levels prevailing at the beginning of this period of catastrophic rise in prices (August to October, 1942) and making these articles available to workers at constant prices from the Company stores, combined with a policy of keeping wage rates stable. This policy has been largely adopted in Eastern India, viz., Bengal and Bihar, where the difficulty of procuring food-grains by workers at reasonable prices was particularly great. The situation emerging from the high prices of foodgrains was further aggravated by the disappearance of small coins, and this was especially felt by the working classes who can only make purchases on a small scale and generally on a cash basis. As the employer, however, could not provide from his own shop all the articles which a worker requires—at best he only provided about 50 per

cent. of the total expenditure on articles included in the cost of living index—, this solution of the problem was only partial, and was therefore generally combined with the grant of a dearness allowance on a moderate scale, say, about 25 per cent. of the normal wage of the lowest paid worker. For this purpose the wage incomes were classified into a small number of blocks and a flat rate attached to each block in such a way that the proportion which the allowance bore to the income decreased as the income increased. This cash portion of the dearness allowance was occasionally increased as prices kept on rising and increasing pressure was brought to bear upon employers for a revision.

This principle of compensating labour for higher cost of living by paying a dearness allowance partly in cash but mainly in kind has two important features. Firstly, it has been urged that it puts a check on inflationary tendencies. Perhaps the contention is based on the argument that the employers would be able to procure a supply of the commodities at controlled prices from wholesale dealers through the intervention of the Government. Thus competitive bidding for food-grains by workers, if they were to receive dearness allowance mainly in the form of money and then purchase their own supplies in the market, would be avoided; thereby reducing the chances of a rise of prices. There is some force in this contention, but its importance depends on two factors, viz., that employers are able to procure the stuff at controlled prices, which is not always the case; and the importance of the consumption of industrial workers compared with that of the country as a whole. If the industrial workers, specially those employed in the organised industries, form a very small proportion of the total population, which is in fact the case, and if the employers have to buy the articles in the black market at competitive rates, it matters little from the inflationary point of view whether part of the price of foodstuffs consumed by the workers is paid by the employer and part by the worker, or the whole is paid entirely by the workers out of the enhanced cash dearness allowance. It is even conceivable that the provision of food-grains at subsidised prices by the employers may have the opposite effect of raising prices immediately, if it leads to the withdrawal of supplies from the market by the employers buying up large quantities with a view

to preserve a stock to be gradually made over to the workers. One thing may, however, be admitted and it is that if the workers purchase articles from the Company store at concession rates, and the price is realised by deduction from wages, the difficulties arising from the dearth of small coins will be reduced to a certain extent; and though Government has given power under the Payment of Wages Act to many employers to make such deductions, this power is not being utilised fully by them. On the other hand, it may be noted that some unscrupulous employers try to make up the concession in quantity which they are forced to offer by a reduction in quality, thereby leading to the creation of discontent among workers.

A second feature of the payment of dearness allowance in kind is that most employers have introduced a rationing system, by which the quantity of articles sold to a worker at concessional rates depends on the size of his family; as otherwise, the employers urge, a single man may get more ration than he wants for his consumption and sell off the rest in the black market with considerable profit to himself. In other words the employers would like to follow the principle of family allowances in wage payment. Without going into the merits of the scheme of family allowances it may be noted that the single worker, or a worker with a small family, or a worker who has left his family behind in his village home, gains less under this scheme than he would do under a scheme of cash dearness allowance. Perhaps this is not unjust, and it may have the further merit of checking inflationary tendencies by reducing the cost of providing dearness allowance and putting less money in the hands of workers. But the difficulties of administration under this scheme are greater and the opportunities of false declaration by workers are considerable. Some employers make regularity of attendance a condition for the grant of full grain allowance and make proportionate deduction if the attendance falls short of the minimum insisted upon. There is some justification for this step, but where the attendance insisted upon is more than what is normal for that industry, workers might complain that the dearness allowance is no concession in as much as it comes out of a reduction in overhead costs resulting from greater regularity of work and more continuous use of machinery. Another practical

difficulty of dearness allowance paid in kind is that workers tend to forget that the justification for the allowance is "dearness," i.e., high level of prices; and when prices tend to come down they realise that the value of the allowance is being protanto reduced; and urge that the reduction in concession should be made good or that benefit in kind should be converted into cash benefit.

I now come to the second method of meeting steeply rising cost of living which has been widely adopted in Bombay, Madras, U.P. and C.P., viz., to make the wages paid vary with variations in price level, or in other words, linking wages with the cost of living index. It may take various forms, such as varying the wage of every worker, irrespective of the wage earned, exactly in proportion to the variation in the cost of living index, or making the proportionate change in wage less and less as the wage increases, or classifying the wage incomes in slabs and attaching a flat rate of allowance to each slab of income, the flat rates varying, with a certain amount of time lag, according to the variations in the cost of living index, etc. The one generally adopted in India is of the last variety with the further qualification that the allowance attaching to each slab of income forms a smaller proportion of the income as we pass from the lower to the higher income slabs; the allowance in the lowest slab covering about 75 per cent. of the rise in the cost of living and incomes above a certain limit, say Rs. 150 P.M., not getting any allowance at all.

Several points may be discussed in connection with this scheme. This scheme is frankly more inflationary in its effects than the rival scheme discussed above. I have examined in my paper on "Wartime Financial Policy" how this principle of basing dearness allowance on rise of prices sets up an inflationary spiral and works like a cat chasing its own tail. This danger is, however, limited in India by the comparative insignificance of the industrial worker with whom we are concerned in this paper. Under this scheme the employers have attempted to keep the basic wage rates constant and compensated the workers for higher living costs by what they deliberately call "dearness allowance," with the idea that when "dearness" is reduced or disappears, the allowance will also be reduced or disappear; and the automatic linking of the two by means of the cost of living index makes the connection

apparent and plain. The employer has therefore kept the way of retreat clear and free in case of a fall of prices after the war and hopes to reduce workers' resistance to a minimum.

It may be asked why should not the worker, particularly the lowest paid worker, be compensated to the full extent of the rise in prices indicated by the cost of living index? The lower grade workers in India are on the subsistence level and they have no margin to fall back upon in case of a lowering of real wages by a rise in living costs. The truth of this contention may be admitted and yet a 75 per cent. coverage of the extra costs of living may be supported on the following grounds:—

(a) Rise and fall in the cost of living are ascertained with the help of index numbers, and in compiling index numbers we can at best take note of only a portion of the expenditure of the family. Roughly about 60 to 80 per cent. of the total expenditure comes under the purview of the index number statistician. Expenditure on utensils, furniture, tailoring, barber, etc., are usually omitted. If the prices of articles and services omitted have moved differently from those of articles included, then the index ceases to be a true guide to the cost of living. House-rent, for example, is not included in the Bihar indices, and if as is very likely, house-rent has not increased as much as the other items of family expenditure, the real rise in the cost of living would be somewhat less than what is indicated by the index.

(b) With all our best efforts the compilation of index numbers remains imperfect. For example, the Bihar indices take potato as representative of vegetables. But everyone knows that the price of potato has remained higher than the price of most other vegetables. Again the price of fish is taken into consideration in the making of the Bihar indices. Now the same kind of fish is not available throughout the year and the price quotations in the different months refer to different varieties of fish, so that comparability is lost and the index becomes imperfect. Similarly with regard to other articles which are not standardised, such as mustard oil, ghee, rice, etc. I doubt therefore if index numbers can be relied upon for accuracy to within 5 or even 10 per cent.

(c) In times of rising prices attempts are constantly made at substituting a comparatively cheap means of

satisfying a want for an expensive one. Thus khesari dal is replacing rahar dal, Dalda is taking the place of ghee, groundnut oil is being used for mustard oil, meat of she-goat is purchased for that of he-goat, small varieties of fish are being substituted for the larger ones. No doubt this substitution always involves some loss of satisfaction, but the loss may not be as great as the saving in price effected. This substitution provides the main explanation of the way the poorest classes are making their two ends meet with the cost of living index for Jharia in June, 1943 standing at 638 and that for Jamshedpur in August, 1943 at 559 (the average of 12 months ending July, 1939=100) and the earnings of workers increased in anything but the same proportion. Incidentally this fact also provides the substance for the main criticism of cost of living index numbers that they measure the cost of a group of articles which the working classes are no longer consuming and are based upon "weights" which must have undergone very considerable changes since prices began soaring.

(d) There is the further consideration that the volume of employment has certainly increased during the war; and in many trades, if not all, the opportunities of overtime work are greater. Thus the Bihar Labour Enquiry Committee computed in 1938 that at Jamshedpur an average working family had 1·012 men workers and ·127 women workers. No subsequent enquiry has been undertaken at Jamshedpur to show whether family employment has increased or not, though indications are that it has. Provided, therefore, that employment is more regular, or more overtime work is available, or more members of the family are in work, the family would not be worse off than before even if the dearness allowance lags a little behind the rise in the cost of living.

I may now take up the question of the justification of the progressive reduction of the proportion which dearness allowance bears to the wage income as the income increases. War necessarily involves expense and sacrifice. As more of the community's resources have to be devoted to providing the implements of warfare, less is available for supplying consumable goods; and everybody, particularly the civilian population, has to go short. It is an accepted principle of public finance that the sacrifice borne by an individual should be proportionate to his ability to bear it.

Apparently those on the margin of subsistence have no ability at all; and ability may be supposed to increase more than in proportion to the increase of income, an assumption on which progressive income-tax is justified. That being so, the higher wage-earners need not be compensated to the same extent for a rise of prices as the lower wage-earners. This argument perhaps will not appeal to the wage-earner; and he will point to the undesirable fact that military contractors, shop-keepers, manufacturers and cultivators have, far from bearing any sacrifice, improved their economic position, and he alone is being made the scapegoat. This is a fact which has to be recognised; but it is a consequence of the inherent weakness of the position of the wage-earners; and governmental machinery, particularly in India, with all the good intentions in the world finds it extremely difficult to shape economic forces to social advantage.

Though I have mentioned above the two logical methods of meeting an abnormal rise in the cost of living, I must not be understood to imply that one or other of the two methods has necessarily been adopted over the whole range of wage payment. Very often practical exigencies and not logic determine what wages have to be paid; and many an employer is paying a wage (and dearness allowance) which is determined more by his bargaining power than anything else. And because of this there is sadly lacking over the industrial field any uniformity in the principle of fixing dearness allowance, and has led to the appointment by the Government of India of a dearness allowance committee under the chairmanship of Sir T. E. Gregory.

It is very doubtful whether in spite of dearness allowance wage-earners have been able to maintain their economic position intact in face of the phenomenal rise of prices. Unfortunately, wage statistics in India are still very meagre and even what is available is not promptly published; thus the figures for total wages paid in Bihar under the Payment of Wages Act, 1936, are available at the time of writing only up to 1940 and the latest annual report of the working of the Factories Act, 1934, which contains a wages return for 18 categories of workers gives figures for 1941. The annual report of the Chief Inspector of Mines also gives the average daily earnings in December of certain categories of workers in the coal and mica mines

of Bihar. The cost of living index for Jamshedpur shows the following movements:—

Cost of Living Index for Jamshedpur

(1909 – 14 = 100)

1938	1939	1940	1941	1942	1943 (first six months only)
104	107	117	134	194	304

Compared with the rise in living costs indicated above the total wages paid per worker per month in Bihar shows that it was Rs. 25·5 in 1938, Rs. 27·2 in 1939 and Rs. 27·8 in 1940, i.e., in the proportion of 104:111: 113. Again the simple average of mean daily wages paid to 17 categories of workers at Jamshedpur shows a rise in the proportion of 104: 114 from 1938 to 1941. If we take the cost of living index for Jharia and the average daily wages of underground miners and loaders in the Jharia coalfield, we find the following relationship between the two series:—

	Cost of Living Index (1909 – 14 = 100)	Wage Index (1909 – 14 = 100)
1938	101	101
1939	114	105
1940	123	102
1941	145	108
1942	198	119

But the simple average is highly defective in as much as it gives undue importance to high paid occupations which are few as is proved by the fact that in the proceedings before the Commissioners for Workmen's Compensation about 60 per cent. of cases referred to workers earning not more than Rs. 15 per month. The evidence adduced above is, however, inconclusive, firstly, because wage figures are not available for 1942 and 1943 when the rise of prices was steepest, and secondly, because, I presume, the wage figures are only for cash wages paid and take no account of the supply of food-grains at concessional rates, particularly since 1942. Though therefore it is possible that the standard of living of wage-workers as a whole may have gone down somewhat, yet it may be true (as is said of the workers in Bombay) that some sections of it have

materially improved their position. Their justification for demanding and receiving compensation higher than what is necessary to cover the higher cost of living is based on the ability of the employer to pay. The employer is making very high profits (the index of profits based on 300 companies increased from 100 in 1938 to 165 in 1940) and why should his concession to workers be limited only to the rise in living costs? In short this is an argument for profit-sharing; and employers have listened to it knowing that otherwise it will be collected by the State in Excess Profits Tax. Another attempt at justification would argue that certain classes of workers were getting too low wages before the war, and since the war has presented an opportunity for improving their position, why should they not take advantage of it? Neither of the arguments appear to me to be conclusive. If employers can afford to pay more, it proves that they have been profiteering which they should not have been allowed to do; and either the surplus should have been taken away by the State, or compulsorily invested on behalf of the workers in some form of war loan, which would have had the salutary effect of keeping the forces of inflation under control. Further, it is hard to believe that only workers who were below the subsistence level before the war have benefited by it. The likelihood is that those who were already strong have further improved their position.

Lastly, I may take up the question of compulsory saving in connection with labour. It has been suggested in some quarters that a part of the dearness allowance paid to labour should be compulsorily invested in savings certificates on the ground that there are hardly commodities in the market on which workers can spend their income; and that the few articles which are available are so highly priced that if one can postpone expenditure, he will not only be able to purchase more goods with the same money in future, but will also help in reducing prices immediately by curtailing the volume of purchasing power competing for the purchase of a limited stock of goods available. Further, by releasing the savings at the end of the war, when following past experience, we may anticipate a depression, it will mitigate the effects of the depression and keep up employment, thereby benefiting labour. All these arguments are quite sound, yet I hardly believe that with the present scales of dearness allowance,

workers with incomes less than, say Rs. 100 per month, have any surplus to save. No doubt very recently an attempt has been made by the Bihar Government to deduct -/2/- out of the minimum price of -/12/- fixed for a maund of sugarcane and invest this in Defence Savings Bank on behalf of the sugarcane cultivator. But it has given rise to a considerable volume of criticism to the effect that only sugarcane growers whose prices are already controlled by Government, and who have not profitted to the same extent as the growers of other kinds of foodstuffs, have been singled out for this sacrifice; that military contractors, manufacturers, and others who have made enormous profits and are in a much better position to postpone consumption, have not been brought under the scheme of compulsory saving; that while cane-growers have to pay much higher rates of interest on the debts with which most of them are burdened (the maximum legal rate of interest in Bihar being 12 per cent.), they are compelled to invest any surplus which might accrue to them in Defence Savings Bank carrying hardly 4 per cent. interest, instead of being allowed to utilise the surplus in redeeming their debts. In my opinion the only source of saving available to workers which can be utilised for this purpose is the bonus—often two months wages in the year—which is now being increasingly paid by employers. These bonuses are uncertain depending on the profits earned; are entirely optional depending on the good-will of the employer; and coming at long intervals, cannot be relied on by the worker in planning his family economy. They are therefore eminently fitted to be locked up in some kind of Savings Scheme. It, of course, necessarily follows that in determining dearness allowance to be paid to workers, such bonuses should be left entirely out of account.

What about the future? Difficult times lie ahead. With the end of the war the apparent war boom will have been pricked; some of the new industries started in sheltered wartime to take advantage of high prices will not be able to face the full blast of international competition and will go to the wall bringing in consequent unemployment. Demobilisation of the army and the stoppage of war contracts will further intensify unemployment. Employers to be able to face foreign competition, will certainly make attempts to reduce wages. If on the top of this a period of depression intervenes, the misery of the workers will be

further aggravated. It is also probable that the Defence of India Rules under which the wages of workers in case of dispute are determined by adjudication, will have been withdrawn at the end of the war. But plans of economic reconstruction are being proceeded with and it is hoped that a part of the industrial progress achieved during the war will prove to be permanent. Labour should realise that in the long run its own interests are bound up with the smooth and efficient running of industries, and should try to build up its skill and efficiency in such a way as to be able to meet foreign competition without shrinking.

MONETARY POLICY AND THE TRADE CYCLE

BY

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The monetary authority or rather the Central Bank of a country determines the quantity of money and its regulation of the rate of discount affects economic activity by influencing the rate of investment. If monetary policy by itself could damp down fluctuations in investment, that would go a long way towards solving the problem of economic instability. We shall therefore examine at some length (a) the mechanism of monetary control and (b) its effectiveness in eliminating or mitigating the amplitude of cyclical fluctuations.

Mechanism of Monetary Control.

Monetary policy influences the rate of investment by controlling the volume and terms of credit. The former is effected by open-market operations, that is to say, the purchase and sale of assets on the initiative of the Central Bank and the latter by variations in bank rate. Since the Central Banks have historically relied on the regulation of the terms of credit, we will be following the traditional order of importance by taking up bank rate policy first.

The significance of variations in the bank rate[1] lies in the fact that it affects "the complex of rates" in the market for borrowing and lending money for short periods. Not only does the deposit rate of the joint-stock banks as in England bear a definite relation to the bank rate but their basic rate for overdraft and loan facilities as well. Consequently variations in bank rate is automatically followed by variations in these short-term rates. The direct effect of the bank rate is thus on the short-term rate of interest.

How does this affect the rate of investment? The level of the short-term rate determines in the first place the

[1] My remarks apply in this and following pages to changes in Bank of England rate.

ease with which an entrepreneur can embark on new investment propositions; for, when he decides to invest, he has to be reasonably sure that he can obtain sufficient short-term finance during the period of investment. A rise in short-term rate by raising the cost of short-term finance deters an entrepreneur from embarking on new investment while a fall encourages him to do so. The level of the short-term rate is also one of the determinants influencing the action of businessmen in carrying stocks of goods, raw material or manufactured. The purchase of such stocks is effected by borrowing from banks and the rate of interest charged by banks naturally enters into the calculations of businessmen. But the rate of interest is only one of the elements of "carrying cost" there are others like warehousing, insurance and allowance for deterioration in quality and how far interest cost is a determining element depends upon the ratio of this item to total cost. Moreover and this is a much more important consideration, investment in working capital is much more sensitive to the rate of turn-over and the prospective movement of prices than to the rate of interest. As activity increases businessmen would hold higher stocks in anticipation of greater demand and their orders to manufacturers lead to greater activity. Conversely, when activity is declining, businessmen set about reducing their stocks. This disinvestment lowers prices and in turn depresses activity and incomes. Fluctuations in investment in working capital no doubt play a large part in the course of the trade cycle; they accentuate the cycle by making booms more intense and depression deeper. But to explain the fluctuations in the holding of stocks as the *fons et origo* of the trade cycle is to mistake the effect for the cause; these fluctuations are the resultant of changes in prices brought about by fluctuations in investment in fixed capital. And it is the latter which is the dominant characteristic of the trade cycle.

But there is no doubt of the controlling power of the central bank over the short-term rate of interest. The effect of changes in bank rate is reinforced by direct restriction of credit on the part of the joint-stock banks. The joint-stock banks influence the rate of investment not solely by varying the rate of interest charged; they have a more potent weapon at their disposal, namely, variation of the amount lent at a given rate of interest. This regulation of the amount of credit is effected by (1) the security

offered by the borrower and (2) his *locus standi* with the bank. As to the first Professor Hicks remarks:[2] "in general, the willingness of any lender to lend his money depends not only on the rate of interest he can get, but also on the security with which he can expect repayment. There are thus always two methods of credit control available, through the rate of interest charged and through the degree of security exacted—never only one. Of these two methods, the potency of the interest rate over a narrow range may be questioned, but the potency of demanding better security from weak borrowers cannot be questioned —the trouble with this method is that it is too potent." It is thus always possible to restrict credit in this way by putting pressure on weak borrowers. It is possible, conversely, to expand credit by relaxing the eligibility rules.

The second is the method of rationing credit. It is a result of the imperfection of the market. The banks are prepared to "lend freely" only to a select body of customers who are considered to have the first claim on the banks. The others have to take their turn after the claims of the favoured few are satisfied. Thus there is always "a fringe of unsatisfied borrowers," as Lord Keynes calls them, to whom the banks are prepared to lend when they seek to expand credit, thereby the "fringe" is narrowed. Conversely, the fringe is widened when the banks are contracting credit. This power of restricting the amount gives the banking system a means of influencing the rate of investment apart from variations in the short-term rate.

So far we have been concerned with short-term investment and its responsiveness to changes in bank rate; but when it comes to controlling the trade cycle it is long-term investment which is most important, for, it is the fluctuations in long-term investment which predominantly account for the trade cycle. Now, investment in fixed capital is responsive to the long-term rate of interest and not to the short-term. Capital outlay is undertaken in response to (a) the net prospective yield of fixed capital and (b) the rate of interest at which this prospective yield can be capitalized. The lower the rate of interest, the higher the capitalized value and greater the demand for

[2] J. R. Hicks, " Mr. Hawtrey on Bank rate and the Long-term rate of interest," *Manchester School,* Vol. X, No. 1, 1939.

capital goods. Conversely, the higher the rate of interest, the lower the capitalized value and the lower the demand for capital goods. In the modern world investment in fixed capital is represented by buildings, transport and other public utilities which, because of their durability, are sensitive even to small changes in the long-term rate of interest.

Monetary control exerts its main influence on the short-term rate of interest, but so far as long period investment is concerned it is the long-term rate of interest which matters. Has the monetary authority then no influence on the long-term rate and hence on long-term investment? *Prima facie* it would seem that there is no relation between short and long rates, but in practice, the two are found to move together,[3] so that the monetary authority is indirectly able to influence the long-term rate of interest as well. There is strong theoretical and empirical evidence[4] for this. The associated movement of the two rates is due in the first place to the fact that the supply of short and long capital is not tied to any particular market but is free to move from one to the other. Owing to the development of an highly organised market for securities, any lender can supply capital for long periods without sacrificing the advantage of liquidity, that is to say, he can secure the use of his funds in case of an emergency by disposing of it on the Stock Exchange. If capital is free to move between markets one should expect the short and long rates to be closely similar and to change in close agreement. In actual practice the market is not so perfect and the long rate has stood a little above the short rate. There is an additional reason for the disparity between the two rates. A holder of securities has to reckon with the possibility that if at some future date he wants to sell them, the capital value of the securities might have fallen in the meantime. Thus the long-term rate is likely to exceed the short-term rate by a

[3] Mr. Hawtrey finds a synchronous movement of bank rate and price of consols in the post-war period; first in the depression of 1921-22, later in the period from the end of 1929 to 1931 and then in the recovery period 1932—35. *Vide* R. G. Hawtrey, *A Century of Bank Rate.*

[4] See Lavington, *English Capital Market* and Keynes, *Treatise on Money,* Vol. II, Chap. 37.

risk premium, whose function it is to compensate for the risk of capital loss.

There is also another reason why short and long-term rates should tend to move together. For various classes of investors short and long-term securities serve as substitutes. There are first the private investors including speculative investors. This class pays much attention to the capital value of their securities and small differences in interest rates will induce them to switch over from long-term securities to short-term securities and *vice versa*. If the yield on bonds is greater than the rate payable on short-term loans, the speculative investor will find it profitable to borrow short and carry long-term securities. The pressure of such transactions will tend to raise the price of long-term securities and thus their yield tends to fall. The other class of investors are the institutional investors such as banks, financial houses, public institutions, large industrial and commercial firms who hold a gamut of securities and they vary from time to time the proportion of their assets invested in short-term and long-term securities. When short-term yields are high, they invest more in short term. When short-term yields are low, they move into long term. Their action depresses the price of long-term securities in the former case and raises it in the latter. "It is these professional investors, operating upon the whole gamut and paying close attention to small differences in rates, who provide most of the logic of the system of interest rates."[5] The purchase and sale of securities by these institutions especially the banks have been decisive factors determining the price level of bonds.

Though short and long rates tend to move together, the movements of the former have the larger amplitude. Just because the short rates are so volatile, every movement of it is not immediately reflected in long rates. For the movement of the short rate to exercise an appreciable influence on the long rate, it must be accompanied by a change in people's expectation of the long rate. If interest expectations are fairly elastic, if for example, a reduction in short rates creates an expectation that high short rates are less likely in the future, the long rate will also be pushed down. It is not possible to reduce the long rate temporarily; unless people believe that the decline is

[5] J. R. Hicks, *Value and Capital*, p. 169.

permanent, the rate will fail to come down appreciably.

Thus by changes in bank rate the Central Bank can indirectly influence the long-term rate of interest. But this is not the only method by which it could do so. The Central Bank can directly influence the long-term rate of interest by purchase and sale of Government securities. The Central Bank thereby increases the quantity of bank credit while leaving the rate charged on loans to find its own level. The purchase of government securities raises their price which in due course will be reflected in the price of other high grade securities as well. As soon as the price of these securities takes an upward turn, many persons who have hitherto kept their funds in liquid form will be inclined to modify their preference in favour of securities. Their purchases will in turn raise their price level.

How does this rise in the market price of certain classes of fixed interest securities affect the volume of output and employment? A rise in the price level of these securities is tantamount to a fall in their yield and this will cheapen the cost of long-term borrowing. We pointed out before that certain fixed investments like house-building and public-utility undertakings are responsive even to small changes in the long-term rate of interest. The new investment which ensues on a fall in the rate of interest increases employment and incomes. This in turn will stimulate enterprise in many directions.

Open-market operations can be employed in opposite circumstances as well, namely, to curb an incipient boom. In such a case the Central Bank should sell securities which it has bought during depression. And it is in a stronger position for curbing the boom because it would possess a larger volume of securities. Thus the Central Bank will not be handicapped in boom period by lack of "ammunition."

Effectiveness of Credit Control.

We have so far dealt with the technique of credit control. Let us now turn to an evaluation of its effectiveness. There is no doubt of the power of a Central Bank in decreasing or increasing the quantity of bank money. What is not so certain is its power to control the volume of money which is actively employed. It is not so much the

control of the quantity of money that matters as the power to increase or reduce the rate of investment. To take the case of a reduction of investment first; a Central Bank if it attempts to curb a boom will be criticised for checking a country's nascent prosperity. Even when the 1929 boom in America had assumed great proportions there was strenuous opposition from every quarter to any attempt at raising the bank rate. Moreover when once the boom has been allowed to develop, it is doubtful whether changes in bank rate can be of any avail. During the post-1918 inflations characterised by soaring price levels, movements in bank rate could not affect the total profits emerging from industry and this only tended to accentuate the inflationary phenomena. But this does not mean that if the Central Bank takes timely and swift action in the initial stages of a boom, that the boom cannot be brought under control.

When it comes to checking the slump, the powers of a Central Bank are even less effective. Lord Keynes while pointing out the ineffectiveness of interest rate policy during depression to revive the marginal efficiency of capital, still expresses faith on the efficacy of open-market operations.[6] According to him, the amount of money held by the public to satisfy the speculative motive depends on the terms on which the monetary authority is willing to create money, so that, if the Central Bank by open-market operations supplies the public with a sufficient amount of money, it can reduce the price required to make people sacrifice liquidity and invest in securities.

There are however severe limitations to the logical carrying out of such a policy. In the first place, there is not one rate of interest but a complex of rates for loans in the market. The structure of interest rates can be altered only if the Central Bank is able to deal in securities of all maturities and even more so in securities of varying degrees of risk. This will involve a vast extension of the scope of open-market operations to cover all long-term securities. Lord Keynes suggests that "a complex offer by the Central Bank to buy and sell at stated prices gilt-edged bonds of all maturities, in place of a single bank rate for short-term bills"[7] will make an

[6] Keynes, *General Theory of Employment, Interest and Money.*

[7] Keynes, *General Theory,* p. 206.

important improvement in the technique of monetary management.

Moreover, the long-term rate is not easily susceptible to control because it is "a highly psychological," nay "conventional phenomenon." Its actual level at any time is governed by people's expectation of what its level is likely to be in the future. If the long-term rate prevailing in the market is considered to be below the expected 'normal,' liquidity preference is strengthened and the monetary authority is prevented from reducing the long-term rate any further. Moreover, the public do not easily change their mind as to what is a "normal" or "fairly safe" rate. Interest expectations in other words are not very elastic. Consequently it is essential for the monetary authority intending to follow "a cheap money policy" to convince the public that the long-term rate is going to settle down at a low figure and is likely to remain at that rate. In 1932, the War Loan conversion was effected in Great Britain because people were persuaded that the days of 5% were over. When once the conventional expectation of the future was modified, it became possible to reduce the interest rate still further; thus from 3½% in 1932 it was reduced to 2½% by December 1934.

But there is however a minimum below which interest rate cannot fall.[8] If the liquidity preference of the public is such that they are unwilling to hold illiquid assets below a certain prospective yield, no amount of monetary expansion can secure interest rates below this minimum yield. This is a case of liquidity preference "becoming absolute" in the sense that everyone would prefer to hold cash rather than securities. The monetary authority would be powerless if this state of affairs were ever to take place. Lord Keynes points out that if such a situation were really to arise, the government itself can borrow through the banking system an unlimited amount at a nominal rate of interest.

There is a further limitation to the reduction of the *effective* rate of interest below a certain figure. Over and above "the pure rate of interest" a lender often requires an allowance for risk especially the risk of default. This becomes important when a borrower's credit is poor, so

[8] This minimum in the present institutional framework is considered to be 2%.

that though the pure rate of interest may fall to a low figure, the effective rate since it contains an element of risk premium does not fall to the same extent. Again in the case of short-term loans granted by banks, the minimum rate charged to borrowers will remain at a figure higher than the pure rate in order to cover the actual expenses in carrying on their business. But the rate charged to borrowers can be reduced to the pure rate provided the banks abolish the deposit interest[9] and increase the charge for current account facilities, thus recouping themselves for the lower rate charged to borrowers. This is not entirely impractical because money has a small "carrying cost" for safe custody; otherwise people would not be prepared to pay a negative rate of interest.

Even when interest rates are reduced to the technically feasible minimum, it is by no means certain that it will be effective in checking a downward movement of prices. When prices are falling, a psychological condition of depression is generated which is not at all propitious for planning investment. When the slump has touched the nadir, a more difficult problem is presented. If conditions of extreme uncertainty and lack of confidence have developed, a more change in the rate of interest will not be sufficient by itself to attract borrowers for purposes of new enterprise. This is the situation characterised by Mr. Hawtrey as a state of "credit deadlock," the failure of cheap money to induce an expansion of credit. In such a contingency "a better accelerator" is required than is furnished by the rate of interest and that can be supplied by the government itself borrowing and promoting a programme of domestic investment.

Conclusion.

Our discussion of interest rate policy has revealed the severe limitations with which it has to function. We have

[9] That this is not a revolutionary proposal is seen from the following quotation from an article entitled "Future of Banking" in the *Economist* of September 4, 1943:

"The depositor of today is rendering no service to the banking system in "depositing his money" with it; he cannot help himself; and the banks are performing a very large service of convenience to him in handling his transactions. . . . It follows that there is no longer any justification for the pampering of depositors in which the British Joint-Stock Banks, perhaps more than those of any other country, still indulge.'

seen that changes in bank rate so far as it affects the cost of borrowing is quite inefficient at extreme trade conditions; at the height of a boom it is hardly a deterrent and at the bottom of a slump hardly a stimulant. Even within the limits of these two extremes, bank rate policy is more effective in retarding the activity of business than in stimulating it. When prices are moving upwards and the quantity of money is not increased proportionately, the short-term rate will rise. There is no limit to its possible rise and the expectation that the bank will go on raising it until credit is definitely restricted will be sufficient to curtail demand. On the other hand when prices are moving downward, the extent of the fall in short rates which is possible is very limited. Thus a reduction in bank rate cannot be taken to mean that the bank will go on reducing the rate until it succeeds in expanding credit. The efficiency of monetary policy is much greater therefore "for checking the boom than for checking the slump; it is thus least efficient where it is most wanted."[10]

Hence we may conclude that monetary policy as a means of stimulating capital outlay during times of depression is not sufficient by itself. This points to the need for governmental measures for promoting investment. Monetary policy has a useful function in facilitating such measures. The Central Bank controls the volume and terms of credit. By regulation of these two magnitudes, it can facilitate governmental borrowing at such times. Moreover for easing the debt charge on the budget by conversion operations, the Central Bank can pave the way by carrying out extensive purchases of government securities. Again if the government is aiming at a gradually rising level of prices the behaviour of the banking system must have considerable influence, for, obviously the general level of prices is governed by the volume of purchasing power which the Central Bank is willing to create. Thus monetary policy impinges on budgetary policy, and the two should be co-ordinated for the control of the trade cycle.

[10] J. R. Hicks, *Value and Capital*, p. 300.

INDIAN CURRENCY—PAST, PRESENT AND FUTURE.

BY

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If it is not too soon for international currency plans to be drawn up and discussed, it is not too soon for India to think of the future of her own currency. But the future of an important sector of Indian economy cannot be considered apart from its past and present; for the past constantly edges into the present, and the present projects itself into the unknown dimensions of the future. It is, therefore, proposed in this article to make a brief general survey of the past and present of Indian currency with a view to laying down a few essential principles or rules for its regulation in the future.

Indian currency has now behind it more than one hundred years of unbroken history. During this period it has passed through diverse phases—from the adoption of silver standard to its abandonment; from the decision to adopt gold standard to the drift to gold exchange standard; from the strain of the First World War causing the breakdown of gold exchange standard system to the difficulties of the post-war period and the attempt to restore gold exchange standard; from the apparent governmental non-intervention of the early twenties to the firm determination to maintain 1s. 6d. in the late twenties and early thirties; from the transfer of control to the Reserve Bank of India in 1935 to the outbreak of Second World War in 1939. A discerning eye does not miss two trends which run through and underlie these phases. One trend is that considerations of public finance have deeply influenced the evolution of currency policy. The statement of Sir David Barbour, the then Finance Member, in 1892 that "our financial position for the coming year is at the mercy of exchange"[1] finds an echo thirty-three years later in the statement of Mr. A. C. McWatters, then Finance Secretary of the Government of India, that "the immediate effect (of a change in exchange ratio) on the Government

[1] Quoted in the Report of the Herschell Committee (1893), p. 2.

of India's finances (and to a lesser extent on those of local Governments) would be considerable, and so far as the current year is concerned, the fixation of exchange at 1s. 4d. would certainly have prevented the reduction which was made of the Provincial contributions."[2] The second trend is that the requirements of India's foreign trade always receive a major share of attention and those of internal trade are practically ignored. Disturbances in foreign trade, difficulties of the Government in remitting Home Charges and the difficulties of the British businessman here and British investor abroad are never overlooked either in the choice of ratio or of the currency standard. The predominance of Great Britain in India's foreign trade in the 19th century and the early years of the present century makes a close link between rupee and sterling inevitable but the link persists even when that predominance has been considerably undermined.

On the eve of the outbreak of the present war, there were, broadly speaking, three open questions of Indian currency, *viz.*, suitability of currency standard, correctness of exchange ratio and the desirability of gold exports, the first two having a much longer history behind them than the third. Discussion about all three of them had lost none of its liveliness in the first half of 1939, though it was not keyed in the same high pitch of controversy as in the years between 1931 and 1938. There were, of course, reasons more substantial than mere love of polemics for this controversy not being laid finally to rest. The reasons were, firstly, that neither the economic developments in the international sphere nor the economic conditions within the country had furnished any firm evidence in favour of the view that sterling exchange standard, 1s. 6d. ratio and gold exports were more beneficial than harmful to the country's interests; secondly, that the government had consistently refused to reconsider or modify in any way the decisions they had once taken on these questions. It appeared, therefore, that only a major catastrophe like a war would clinch the issues and bring about their reconsideration by effecting a radical transformation in the economic *milieu*. But wars do not generally solve old problems except by raising new ones

[2] Memorandum on *Stabilisation of Exchange*, Appendix 4 to the Report of the Royal Commission on Indian Currency and Finance.

and, so far as the outstanding Indian currency problems are concerned, the present war may be said to have solved the old ones only by casting them into the background and raising new ones.

Few will care to deny that Indian economy has been thoroughly shaken up by the fifty-two months of war or that developments occurring in the sphere of Indian currency have been a very vital contributory factor in this shake-up. During the last sixteen months or so, a large part of the population has found itself exposed to the increasingly heavy pressure of growing scarcity and want. Scarcity has manifested itself as a double-barrelled problem of physical shortage and high prices and has involved the most painful reductions in the daily consumption of persons with small and fixed means. Prices are now very much a matter of popular concern. Money has entered the economies of even the far-flung village units to such an extent that anything that acts on or affects price must affect the daily activities of the vast mass of people. Easily the most far-reaching development arising out of war in India is a rise in prices which is very large in magnitude, though it has not been continuous in time and has not spread evenly either geographically or in respect of commodities. The broad movements in prices since the outbreak of war have been shown in the following table:—

Period	Duration	Index numbers in the first and last month of the period		Maximum variation during the period
I (4 months)	September 1939—December 1939.	Calcutta (August 1939—100)	114—137	+23
		Economic Adviser's (Week ended 19th August-100)	108—138	+30
II (7 months)	January. 1940—July 1940	Calcutta :	130—114	—16
		Economic Adviser's	137—111	—26
III (10 months)	August 1940—May 1941	Calcutta :	115—130	+15
		Economic Adviser's	110—119	+ 9
IV (11 months)	June 1941—April 1942	Calcutta :	137—157	+20
		Economic Adviser's	126—146	+20
V (16 months)	May 1942—August 1943	Calcutta :	169—345	+176
		Economic Adviser's	148—238	+90

It is not necessary for our present purpose to discuss the issue whether the rise in prices is to be attributed to the failure of the currency system to keep the volume of currency expansion under control or other causes. For, after the whole gamut of arguments on this issue has been run, the enormous expansion of currency remains as much of an indisputable fact as its close bearing on prices. A good way of representing the increase in note circulation—the most important constituent item in currency circulation—is to divide it into units of 50 crores and set it against the approximate number of months in which it was accomplished:—

Magnitude of increase		Period	No. of months
1st	50 crores	End of August 1939—November 1939.	3
2nd	,,	December 1939—September 1941	22
3rd	,,	October 1941—December 1941	3
4th	,,	January 1942—February 1942	2
5th	,,	March 1942—May 1942	3
6th	,,	June 1942—September 1942	4
7th	,,	October 1942—November 1942	2
8th	,,	December 1942—January 1943	2
9th	,,	February 1943—March 1943	2
10th	,,	April 1943—May 1943	2
11th	,,	June 1943—July 1943	2
12th	,,	August 1943—October 1943	3

It is clear that after an initial briskness lasting for the first few months of the war period, the pace of expansion of currency considerably slackened, only to quicken once again from September 1941 and develop into something like a gallop from September 1942.

From its magnitude, characteristics and effects, currency expansion in India has already assumed the form of inflation and is recognized as such, either explicitly or tacitly, by the two authorities that shape the currency policy, *viz.*, the Government of India and the Reserve Bank. The development of inflation has dwarfed to some extent the other wartime changes in the system of Indian currency. There is a far bigger element of control in the

system than there ever was before the war. To a far greater extent, it has come to rest on a base of virtually inconvertible paper. Indeed the demonetization of nearly the whole of silver rupee coin and the smooth passage of one-rupee and two-rupee notes into circulation would have been considered revolutionary changes under different circumstances. The accumulation of large sterling balances in England has created the twofold problem of the preservation of their value and their inward transfer. The rupee-sterling link, however, remains intact and so also India's membership of the sterling area.

With this hastily sketched background we may proceed to attempt an outline of the future of Indian currency as we would like it to be. There are three periods into which the future may be divided for our purpose: the unexpired portion of the war period; the transitional period immediately following the end of war and the post-transitional period of reasonably assured peace and reconstruction.

In the immediate future the most outstanding problem of Indian currency will be, as far as one can see, one of bringing and keeping the inflationary forces under control. The causes of the development of inflation are by now well known; the sequence broadly is that public finance in India has moved as the camp-follower of the policy of diverting resources to war effort and currency has served as the handmaid of public finance. The process of the diversion of resources is likely to be accelerated in the next one or two years and the financial implications of it must be faced now. The problem of inflation is a problem of growing disequilibrium in two directions: firstly, a disequilibrium between currency expansion and wartime increase in production, trade and employment; and secondly, a disequilibrium between the volume of purchasing power obtainable by the normal means (of taxes, loans etc.) and the volume of real resources transferred to the war sector of economy, on the one hand, and between the volume of purchasing power and real resources remaining in the civil sector, on the other. While the remedy for the first kind of disequilibrium is an expansion of the volume of goods and services offered against money, the prophylactic against the second kind of disequilibrium is a sound system of war finance. The effects of the first can be mitigated by expanding production; *given* this kind of disequilibrium, no matter how caused, the situation can be

retrieved by drawing off the purchasing power running in an ever swelling stream into the civil sector and pressing on the limited supplies of real resources.

There can indeed be no single sovereign remedy for the evil of inflation; a number of measures will have to be combined to overcome its menace. The measures that can possibly be taken fall under the following heads:

(i) reduction in the volume of the Government's total disbursements (including those undertaken on behalf of other countries) to a point where the whole of them can be covered by non-inflationary methods of finance;

(ii) refusal from the Government of India to other allied countries to furnish them rupee finance, i.e., throwing on them the responsibility to raise the required finance themselves in the Indian market;

(iii) covering, without reducing, the Government's total disbursements (including those on behalf of other countries) by the non-inflationary methods of taxes, loans (voluntary and compulsory), liquidation of foreign private investments, etc.;

(iv) adding to the reservoir of real resources by expanding production, stimulating imports, scaling down exports, importing and selling gold and forcing out hoarded stocks;

(v) preventing the incomes, inflated by the Government's disbursements, from exercising pressure on the limited quantities of real resources by various controls such as price control, rationing, control of investment, wages and profits, control of speculation, etc.

It appears that the Government has so far found (i), (ii) and (iii) beset with very great difficulties and are laying the greatest emphasis on (iv) and (v). With the Far Eastern offensive under contemplation, any reduction in the volume of Government disbursements, involving as it will do a contraction of war effort, seems to be out of the question. It is, however, necessary to point out that this remedy goes to the root of evil and is not quite so impracticable as it might appear, provided the Allied countries will

come forward to shoulder all further burdens of the War. As for asking the Allied countries to raise the rupee finance themselves, the suggestion is not very helpful, considering that the yield of even the Government of India loans has not been very encouraging. It may perhaps be more straightforward to tell these countries not to depend on India for resources to the extent to which they are doing. To replace completely the inflationary method of finance by non-inflationary methods also appears under the present conditions to be a very hard job; for it may be remembered that the proportion of taxes, loans and inflation in the total rupee finance raised in the first four years of war has been roughly one-third each. In regard to direct economic controls, it may be admitted that they are of great value but their limitations in a country like India must be clearly recognised.[3] Increased production, enlarged imports and reduced exports are anti-inflationary to the extent to which they obviate the necessity of withdrawing resources from civil consumption by inflationary methods and must be given much greater importance in an anti-inflation programme.

By a judicious combination of the more practicable among these measures it should be possible to ensure that the War does not bequeath to the future a very much inflated structure of prices and money incomes. Inflation as a continuous process of rising prices is a socially disrupting factor because it "destroys two very important social things; it destroys the value of saving and it destroys the worker's standard of living."[4] Moreover, it leaves for the post-war period the most complicated problems of the restoration of budgetary equilibrium and the determination of suitable exchange parties.

One of the immediate issues to be faced in the post-war transitional period in India will certainly be the retention or relaxation of exchange control—and the extent of it. The economic systems of different countries will then seek freer inter-communication and it will have to be decided how far and on what conditions Indian economy should go back within the orbit of the world economic system. To a large extent the position would appear to be pre-determin-

[3] I have referred to them elsewhere (*cf. Eastern Economist*, 19th November, 1943).

[4] Gregory, *Current Problems of International Finance.*

ed by the rupee-sterling link and India's membership of the sterling area. But if the Indian economy is not to be left to the mercy of forces released by the War, the whole question of rupee-sterling link will have to be brought under examination at the earliest possible date. The preamble to the Reserve Bank of India Act envisages the consideration of a suitable monetary standard only when the international monetary position has become sufficiently clear and stable. This condition, if strictly observed, will involve postponement of decision on several vital issues of currency. The presence of several rigid elements in the economic structure of India requires, however, that freedom to control exchange and alter exchange rates should be assumed at the very commencement of the period of transition.

Freedom and flexibility in respect of exchange are likely to be needed in equal measure in the post-transitional period of reconstruction. For whatever be the shape of the world monetary system of the future, Indian currency will have to be pressed into the service of all those policies and measures that are formulated to build up the standard of living of the large poverty-stricken mass of Indian people. It is, therefore, necessary to form an idea of the relation in which the future Indian currency system should stand to the future world monetary system and to the internal economy of India. Judging from the three post-war currency plans—British, American and Canadian, and the discussions centring round them, it would seem that the future monetary system would be either some form of gold standard operated without the agency of an international institution or a managed system of international currency linked to gold and operated by an international institution. It does not appear that gold will lose its dominant position as a money-commodity easily or quickly. This would suggest the importance of conserving and building up the gold reserve behind our paper currency in order to settle balances of payment on international account. Actually, however, India's position after the war should be of a strong creditor who could, if she so chose, ask for payment of her dues in gold. For India, therefore, accumulation of large gold stocks would be unnecessary for international purposes and inexcusably wasteful for internal use. Internally, the Indian currency of the future should be a cheap currency, largely of

paper, backed by a moderate quantity of, but not convertible into, gold and operated in solely the national interest by the central banking institution. Its specific objective should be the promotion of the highest level of employment, production and trade within the country. Externally, there should be the fullest liberty to retain or abandon the link with sterling and the membership of the sterling area. In respect of the sterling credits built up during the war, and representing the heavy sacrifice of consumption made by the Indian people, four eventualities will have to be guarded against. In the first place, no revision or further interpretation of the Financial Agreement regarding allocation of defence expenditure between England and India should be permitted to augment India's share of the total financial burden of war. Secondly, no post-war currency plans which prevent the fullest and freeest utilization of sterling balances should be subscribed to. Thirdly, no financial or commercial arrangements among the victorious nations or between England and India should be allowed to impair India's liberty to utilize her sterling resources to purchase such goods and in such countries as she decides upon in her own interest. Fourthly, any loss to India from depreciation of sterling must be made good by the British Government as part of a bargain in which the debtor pays a commodity debt unimpaired in amount by a change in prices. It may be pointed out that these general considerations do not touch the really basic problem of the *transfer* of these resources to India. Such transfer will, of course, be made and received in the form of goods and services but that only means that the time, manner, form and conditions of the transfer will have to be settled. Commercial and economic opinion in this country appears to be unanimous that a large part of the sterling resources should be obtained in the form of capital goods, particularly industrial plant, machinery and durable consumers' goods. This will have the double advantage of facilitating renewal, repair and replacement as soon as the stress of war production is over and of providing the necessary elements for a large industrial expansion. Sometimes, however, this mode of transfer is recommended with such extravagant emphasis as to give rise to the impression that by the end of the War India will have completely terminated her dependence on other countries for all the consumers' goods. It would appear

to be wiser to concentrate the force of agreed opinion on the demand that India should be left free to obtain such kinds of goods as the demands of her economy dictate, a very large proportion of these goods being necessarily capital goods. It is necessary to point out in the end that a free multilateral process of trade which is the aim of all the three post-war currency plans to bring into operation may not necessarily be beneficial to India. Several reservations in respect of the freedom of our future commercial policy will have to be made if an energetic programme of industrial expansion is to be brought into effect in the post-war period. In fact, no commitments about our future currency policy should be accepted unless some agreed plan for the conduct of post-war commercial relations is forthcoming.

It is possible to be pessimistic about the future of Indian currency and hold that the only course available for India would be to find a niche in a world monetary system in the establishment of which she has no share and in the management of which she has but a feeble voice. But neither by her position as an important belligerent nor by her potential economic strength is India called to such an ignominious assignment.

NOTES AND MEMORANDA

The Proposed Agricultural Income Tax in Bengal

The financial part of the scheme of Autonomy introduced by the Government of India Act 1935 is designed to secure fiscal expansion for provincial purposes, But, its working since April 1937 has so far emphasized inelasticity and inadequacy of the financial powers of most of the provinces to meet their increasing responsibilities. In spite of such a limited range of taxing power, however, most of the Provincial Governments have been compelled to explore new and additional sources of revenue. But these efforts were cut short by the outbreak of the war, in September 1939. Yet while the efforts to secure additional revenue received a set-back, the war imposed new burdens. Every Province had to provide for civil and defence expenditure on an increasing scale. Various kinds of emergency allowances had to be sanctioned. Existing services had to be extended, while new problems such as the problem of providing for refugees had to be faced. As against this, the change of fiscal policy as indicated by the introduction of Prohibition had brought about a heavy fall in the revenues of certain provinces. The dislocation of private trade and commerce due to the war had also upset the economic equilibrium of the country. This was accentuated by the defective character of the economic controls imposed by the Government. Between all these factors, almost all the Provincial Governments have been forced since the beginning of the war to look for additional revenue. In Bengal, the situation is complicated by two special factors. The first is the Permanent Settlement. This of course is a historical fact, a normal feature of the Bengal revenue system since 1793. The other is the situation that has been brought about by the present famine. In this short paper, we are concerned chiefly with how Bengal has attempted to meet this revenue crisis.

So far as the Permanent Settlement is concerned, the Hon'ble Mr. P. N. Banerjee, then Revenue Minister of the Government of Bengal, announced the Government policy on the 15th March, 1943. The policy is based on the Govern-

ment's decision to follow up the recommendation of the Bengal Land Revenue Commission, commonly known as the Floud Commission, for the purchase of the rights and interests of all classes of tenure-holders paying cash rents along with those of the revenue-paying land-lords. This means not only that the Permanent Settlement would be abolished but that state-landlordism would be substituted for private landlordism. The revenue yielding possibilities of this new decision, even if it could be enforced immediately, are, however, discounted by the Floud Commission's calculations. The immediate alternative, therefore, for the augmentation of the provincial revenues, is to impose a tax on agricultural incomes. The new Bengal Ministry which came to office in April last has already announced a Bill for this purpose.. The proposal, if accepted, will undoubtedly be the latest and the most important addition to the Bengal Provincial list.

Agricultural incomes in the permanently settled areas of Bengal have been immune from taxation for about 60 years now. It is interesting to recall that agricultural incomes had not been exempted from the ambit of the First Income Tax Act of 1860. This was, of course, a temporary measure, resorted to stabilise the Government finances after the Sepoy Mutiny. Agricultural incomes were taxed for a second time for a period of five years from 1869 to 1873. Their subsequent immunity has been an anomaly in any scheme of taxation whether national or provincial.

The present proposal of taxing agricultural incomes in Bengal is not of course altogether a new venture. It was in September 1941, that the Bengal Bill, was first introduced in the Legislative Assembly, but its progress was retarted due to the Ministerial crisis. The first province in India to impose the tax was Bihar where the Agricultural Income Tax has been in operation since 1939. In 1939-40 Assam passed her own Act. Bengal is, therefore, third in order of priority. Her Bill has now been referred to a Select Committee.

A careful examination of the possibilities of a tax on agricultural incomes led the Taxation Enquiry Committee to endorse, in 1925, the imposition of such a tax. The Committee was of opinion that such a tax would neither be inequitable nor would it result in an indirect whittling down

of the rights conferred upon the Zamindars under the Permanent Settlement in 1793. A tax on agricultural incomes would be a violation of the terms of the Permanent Settlement is advocated by many. But this was pronounced as an "illusive claim" by the Right Hon'ble Mr. James Wilson as early as 1860, and, as we have seen, the Taxation Enquiry Committee had also no objection against such an imposition. In the opinion of the Committee, there was no legal bar to the imposition of such a tax and so as a means of raising additional revenues, it endorsed its early initiation. But it was pessimistic about its administrative feasibility. The Bengal Land Revenue Commission also recommended its imposition, but as a transitional measure pending the decision on the scheme of State acquisition recommended by it.

When the Permanent Settlement was passed in Bengal, the Zamindars were declared full proprietors of the soil. The assessment was fixed unalterably and for all time to come. But, the ultimate results have been the loss of revenue to the State. In Bengal, the total receipt of the Zamindars from the ryots comes approximately to rupees 16 crores while the Government gets only a share of this amounting to less than rupees 4 crores. It was thus a grave mistake to fix the revenue permanently. As to whether its revision, after about 150 years of its operation, would lead to a large increase of revenues, doubts have been expressed by competent critics. The present writer does not share the doubts. The Floud Commission's recommendation are based on present calculations. By a careful, let us even say, cautious, policy of re-settlement of revenue supplemented by a bold drive for improving the productivity of land, it should be possible to work on a new basis of calculations, resulting in a substantial increase in the revenue yield. The incidence of rent in Bengal compares favourably with that in other provinces. But, of course, in raising the States' demand on land, the special features of Bengal's systems of rent and tenure should have to be allowed for. Moreover, the problem is complicated by the lack of coherence in the matter of revenue assessment even in the Temporary Settled areas. The basic principles of Temporary Settlement differ from province to province. In Madras, it is net produce while, it is, theoretically, economic rent in the Punjab, C.P. and U.P. The incidence of taxation at a flat rate and the

absence of progression tells too much on the smaller peasantry who form the vast majority of the holders in India. Land revenue is, therefore, bound to be regressive.

In the face of these problems regarding income from land, it is difficult to see the reasons why the Government in discharge of its duty to secure uniformity, equity and justice of fiscal standards did not think it expedient to levy a tax on agricultural incomes long before.

In most countries land is subject to four different taxes, namely, a flat rate on annual or capital value, death duty, local cesses and a tax on incomes while in India, only cesses and land revenue are collected. So the arguments regarding the exemption of agricultural incomes on the ground of double taxation do not seem to have much validity.

The Agricultural Income Taxes of Assam and Bihar and the proposed tax in Bengal closely follow the Income Tax Act (Act XI of 1922 as subsequently amended). The Bihar Act was passed before the passing of the Income Tax (Amended) Act of 1939 while the Assam Act is not perfect because it was hastily improvised. Bengal in passing her own Bill should turn to good account the experience of these two provinces. The expediency of passing an Agricultural Income Tax Act has been proved beyond doubt by the experience of Bihar and Assam so that the merit of the Tax on grounds of equity and administrative feasibility do not lend themselves to much debate.

Coming now to the text of the proposed Bill we find that it has a closer affinity with the Income Tax Act. In Bihar, agricultural incomes below Rs. 5,000/- are exempted from taxation and the incomes above Rs. 5,000/- have to pay rates varying from 6 pies to 30 pies in the rupee. The highest rate which is on incomes exceeding Rs. 15 lakhs affects only the Maharajah of Durbhanga. The Assam rate is somewhat steeper. For the second slab of Rs. 5,000/- the rate is 1.1/3 annas per rupee; for the third slab of Rs. 5,000/- the rate is two annas; for the fourth slab of Rs. 5,000/- the rate is $2\frac{1}{2}$ annas per rupee. The highest rate is on incomes above Rs. 15,000/-. The proposed rates in the Bengal Bill are less steep and fall even below the rates of the Indian Income Tax Act. In Bengal, for the second slab of Rs. 5,000/- the rate is 1 anna per rupee; for the third slab of Rs. 5,000/- the rate is $1\frac{1}{2}$ annas per rupee; for the fourth slab of Rs. 5,000/- the rate is

2 annas per rupee; and this highest rate is on the balance above Rs. 20,000/. There is no Super Tax in any of the three provinces.

Reliable estimates are not available as to the prospective yield of the proposed Tax in Bengal. But the general impression is that it will be substantially productive. It may be recalled that during 1860-65, the yield from agricultural incomes was more than half the total yeild of the Income Tax in Bengal—Rs. 90 lakhs out of Rs. 165 lakhs.

The proceeds of the Bihar Tax in 1941-42 were Rs. 15.45 lakhs while in 1942-43 the proceeds were Rs. 17.65 lakhs. In Assam in 1941-42 the proceeds came to Rs. 27.12 lakhs and in 1942-43 it was Rs. 27 lakhs.

A reference to the cost of collection is also indispensible for examining whether the proposed Tax will satisfy the canon of economy. The cost of collection in 1941-42 was 3.2% for Bihar and 1.5% for Assam. Having regard to the yield, the figures do not appear to be unduly high and as such the imposition satisfies the principle of economy. The Central Income Tax Department in each of these provinces, for its own purposes, estimates the income of Tea assesses. Of this income, 40% is taxed and the rest 60% is exempted as agricultural income. The definition of agricultural income is identically the same in the Central* and the Provincial Acts. So matters have been easily simplified for the Provincial Governments to levy Agricultural Income Tax on the margin of this exempted 60%.

So far as the question of imposing a tax on agricultural incomes during the war is concerned, due allowance should for the factor of inflation be made in determining the exemption limit, so also for the exorbitant rise in the cost of living index. Due note must also be taken at the same time of the fact that Bengal is suffering from an acute famine and scarcity. The incidence of this upon an agricultural province like Bengal is at present beyond calculation.

We should at the same time remember that there has been an appreciable increase in the incomes of the agriculturists due to inflation but the consequent expenditure has been narrowed down by the scarcity of consumable goods.

* Sec. 2(1) of the I. T. Act.

So the imposition of a tax on this surplus income is amply justifiable from the point of view of financial policy. It should be also reasonably encouraged as an anti-inflationary move. Agricultural income does not embrace the income of the peasant alone, it includes definitely the income of the large body of tenure-holders—the rent-receiving class. Their incomes are more or less fixed and they are in fact affected by high prices. Still, the exemption limit is distinctly higher compared to the exemption limit on incomes of the non-agriculturists. As against this, it is said that the rent-receiving class that is the tenure-holders were adversely affected by the depression of the last few years and there was no attempt of relieving them to set-off at least partially, while in the Income Tax Act there is positive provision to set-off business loss and business profit. So the Bill seems to be rather punitive in character.

Not all agricultural incomes are of the same type or of equal importance from the point of view of the incidence of the tax. The war means an increase of the agricultural incomes of many merchants and traders so that there is no logic why this upper income range should not be steeply taxed like the E. P. Tax. Again, plantations, in general are categorically different from ordinary cultivable lands because plantations are better organised, having better facilities of employment of labour and efficient control and can successfully keep up prices by restricting the output to be produced. Planters are thus more or less industrialists and so should be taxed at a steeper rate than the ordinary crop cultivator. Travancore follows this rule. This principle can be easily appliable to Assam because 5/6th of the agricultural income-tax payers in Assam are tea planters. This should be possible in the case of Bengal planters too.

Another point to be remembered in this connection is the acute problem of sub-division and fragmentation in Bengal. This necessitates, the definition of the economic holding—the minimum basic area of exemption of the tax burden. Income Taxes are direct taxes so that the incidence is borne ultimately by the income receiver. So, here, there is no scope of shifting. But illegal exactions and manipulations in kind and cash are usually resorted to by the Zamindars so that the incidence has every chance of being shifted on to the small tenant. Proper provisions

should be made and adequate safeguards should be provided for in order that there is no loophole for shifting the incidence of the Agricultural Income Tax.

These are some of the drawbacks of a levy on agricultural incomes. They do not in any case limit its scope because with proper safeguards it can be quite successful and productive. Granted these limitations this new impost is bound to be appreciated by the public, especially if the proceeds are spent for the permanent improvement of land and on those who depend on it.

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A Simple Dynamical Problem

The dynamical treatment of economic problems has recently received much attention. Such treatment takes into consideration the future in a changing economy and thus involves elements of which no certain knowledge is possible. The usual element of uncertainty is the course of future prices or of demand and supply functions.

In this paper, I propose to discuss a somewhat similar problem, of interest both because it deals with a common situation and because it illustrates the nature of the dynamical problem.

2. Let us consider a range of fields, either rain-sown or with unsatisfactory irrigation. On an average, out of p years, in q no sowing is possible, in r sowing is possible but the subsequent distribution of rain is such that the crop fails and in t the distribution enables the crop to ripen.

$p=q+r-t$ (we exclude partial successes and partial failures for simplicity). For simplicity, I leave out of consideration all improvements to the field due to cultivation, manuring, etc., and regard the entire sum spent as lost if the crop fails. I, also, suppose that in years when no sowing is possible, nothing is spent. Suppose further that the farmer's choice is limited to one crop but that there are two methods of cultivation, one costing C_1 and yielding R_1 per acre and the other costing a greater sum C_2 but yielding more R_2. (All these are completed in terms

of money). The question is this: how should the farmer act so as to get the best return over a number of years.

Let us consider a period of np years where n is large. In roughly nq of these years no sowing is possible and no question arises.

In the other years, he has a choice. He can try the more expensive method of cultivation but then he risks the possibility of losing more. Let us suppose he cultivates a_1 acres in one way and a_2 acres in the other and that he keeps (again for simplicity) these acreages unchanged. $a_1 + a_2$ is his total acreage and we suppose it is fixed.

His cost will be $n\ (r+t)\ (a_1\ C_1 + a_2\ C_2)$ and his return $nt\ [a_1\ R_1 + a_2\ R_2]$.

His profit $P = n\ [t\ (a_1\ R_1 + a_2\ R_2) - (r+t)\ (a_1\ C_1 + a_2\ C_2)]$ subject to $a_1 + a_2 = A$, a constant.

This is a linear function in a_1 and a_2 and is $n\ [t\ AR_2 - A\ (r+t)\ C_2 - a_1\ t\ (R_2 - R_1) + a_1\ (C_2 - C_1)\ (r+t)]$.

Thus if $(c_2 - c_1)\ (r+t) > t\ \ (R_2 - R_1)$, it will pay him best if he cultivates his whole area in the cheaper way while if the contrary holds, he should do the reverse.

3. Let us turn now to the more general case where there are not merely two methods of cultivation but the return depends on the amount of labour, manure, quality of seed (of the same variety) etc. The well-known rule for the stationary state is that one would increase the input until the marginal increase of input just equals the marginal return. Does this rule hold when the return is problematic? One would consider that as the chance of success is only $\frac{t}{t+r}$, the prudent man would not be prepared to risk a further unit unless he expected to get $\frac{t+r}{t}$ from it if he succeeded. It is easy to see that this is the result we should get if we substituted for the profit, an expression which we might call the expectation of profit, obtained by multiplying the expected return by the chance of success. If C is the cost of planting and R the return (C being here a variable) over n p years, the profit will be $n\ t\ R - n\ (t+r)\ C$ which will give the above rule.

We would get the same result if we regarded $\frac{t\ R}{t+r}$ as the expectation of profit and maximized $\frac{tR}{t+r} - C$.

4. Now let us consider a slightly different problem. Suppose the alternatives are a short-term paddy with low

yield and a long-term one with higher yield. The costs and yields of the first are C_1 and R_1 and of the second C_2 and R_2 respectively. Climatic conditions for the first crop are suitable on the average in r_1 out of n years and for the second in roughty r_2 out of the same number of years. The expectation of profit in the first case in $R_1\frac{r_1}{n} - C_1$ and for the second $R_2\frac{r_2}{n} - C_2$. One would house the first or second according as the former or latter is greater. This is confirmed by consideration of the respective profits over a number of years.

5. It is often necessary to decide if some improvement scheme is worthwhile. A satisfactory test is to consider whether the capital cost and the capitalized equivalent of the annual maintenance charges is less than the increase in capital value resulting from it. It is well known that with an interest rate of r%, the capital value of an annuity of a is $100\frac{a}{r}$. This is obtained by summing the infinite geometric series $\frac{a}{1+\frac{r}{100}} + \frac{a}{\left(1+\frac{r}{100}\right)^2} + \ldots\ldots$ when as in the case of the return from a field, the terms are of different types so distributed that they bear certain proportions to each other, the summation is more difficult and is clearly affected by the number of good years in the earlier period. Any average value can only be obtained by summation followed by integration in a certain topological space. If however we take the expected profit as explained above and capitalize this, we can form an estimate of the value of the work by comparing capital values before and after the work. By summing this for all the fields affected by the scheme, we could examine if the cost is justified. The benefits will arise from four cases:— (1) new areas will become cultivable; (2) areas not cultivated in particular years, will be cultivated; (3) the proportion of successes will be increased; (4) better crops can be grown profitably.

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Teaching and Research in Economic Statistics

The first scientific meeting of the Sixth Session of the Indian Statistical Conference opened with a joint discussion on The Teaching of Statistics. The Indian Statistical Institute had been concerned with this question practically from the very beginning. It was at its instance that the Inter-University Board suggested to the different Universities of India the organization of independent degree and post-graduate courses in Statistics. While this question was hanging fire, the Indian Statistical Institute started professional examinations in Statistics in 1938 and training classes in Statistics in the next year. The University of Calcutta has been providing post-graduate teaching in Statistics as an independent subject during the last two years; the first M.A. and M.Sc. Examinations in Statistics were held about the middle of 1943. For many years past, in Calcutta as in other Universities, Statistics has formed a part of the courses for B.Com., M.A. in Mathematics, Economics and Commerce etc.

Thus Statistics in India has been cut up or divided. It is true that etymologically as well as historically there is an intimate connection between a statistician and a statesman and it may be equally true that a statesman should divide and rule, but it does not follow that a statistician should also divide and rule. If the truth must be told, this division of Statistics into different courses has led to a wrong attitude with regard to its teaching and research.

An example of this is furnished by the mathematical equipment considered necessary on the part of students. Many text-books on statistics boast of the facts that they do not require any knowledge of mathematics and that they can be understood by any one. Teachers also follow suit and explain, for example, why a particular average is chosen in preference to others, on the ground of ease of calculation and similar superficial causes without any mention of the fact that the best average value as well as its standard error rest on the theory of estimation. Many students never have any idea that statistics does not mean simply the computation of an average or of any measure of dispersion, nor the drawing of a graph of a time series or of its analysis in the usual manner. They do not realise that the era of modern statistics was ushered in at the

beginning of this century with the discovery of "Chi-squared test" by Karl Pearson and the subsequent development of the technique of random sampling.

On the other hand, quite a disproportionate stress may be laid on what is usually called mathematical statistics. It is quite true that the theory of probability goes to the very root of the matter. But the wise words of Fisher in his Presidential Address before the First Session of the Indian Statistical Conference should also be remembered in this connection: "I want to insist on the important moral that responsibility for the teaching of statistical methods in our Universities must be entrusted, certainly to highly trained mathematicians, but only to such mathematicians as have had sufficiently prolonged experience of practical research and of responsibility from drawing conclusions from actual data, upon which practical action is to be taken."

Most of us know the late Lord Stamp's story about Indian Statistics.[1] Harold Cox, when a young man in India, quoted some Indian statistics to a judge, who replied, "Cox, when you are a bit older, you will not quote Indian statistics with that assurance. The government are very keen on amassing statistics—they collect them, add them, raise then to the nth power, take the cube root and prepare wonderful diagrams. But what you must never forget is that every one of these figures comes in the first instance from the village chowkydar, who just puts down what he damn pleases." If Indian data are bad, they do not certainly call for bad statistical methods. On the contrary, the most refined methods should be applied to make the best possible use of them and to collect them better in future.

Lecky in his *Rationalism in Europe* quotes a law of Diocletian—"the mathematic art is damnable and utterly forbidden."[2] Here "mathematic art" does not mean "mathematical statistics" but the art of foretelling the future by the use of numbers and appears to be closely allied to the art of business forecasting, much practised in the United States, where correlation coefficients of the order of ·9 are obtained with some series providing the

[1] Sir Josiah Stamp: *Some Economic Factor in Modern Life* (1929), pp. 258-259.

[2] Macrosty: *Economic Statistics—Retrospect and Prospect* in J. R. S. S., Part I, 1941, p. 4.

basis for forecasting. The unreality of this pseudo-mathematical method is best pointed out by an American writer himself in the following words[a]: "If it should be found that changes in the anthrax death rate tended regularly to precede turning points in American business, this series might be included in the forecasting index." Can absurdity go any further?

This brings us to the question of the practical application of Statistics; in other words, of the teaching of statistics on the lines of a profession such as accountancy or banking, and not on University lines. For the former, computational skill, a knowledge of the sources of the data, etc., are called for; whereas for the latter, the theories underlying the methods of statistical calculation or of collection of data are absolutely necessary. This distinction is well brought out in the courses prescribed for the Computers' Certificate examination and Statisticians' Diploma examination inaugurated by the Indian Statistical Institute as stated already.

From the above discussion, discursive and disjointed as it is there is one factor brought out in bold relief. We should not at this stage propose any cut and dried method of teaching Statistics. On the other hand, our system of training should be highly elastic, not only to suit the capacity of the different types of students but also in accordance with the nature of the duties they will be called upon to perform. This does not mean that the training should be perfunctory; this only means that this should be thorough, *as far as it goes*.

In trade, in industry and in finance, there is an insistent demand for more and better statistics. Until and unless a businessman has standards of measurement obtained after accurate statistical analysis he cannot judge the efficiency or inefficiency of his own business. For instance, unless the executive head of a cotton mill knows the optimum capital of an enterprise, its appropriate allocation in preference and ordinary shares and debenture bonds, its proper division into block accountand working funds and so on, he cannot run his mill efficiently. Nor can he know whether he is spending more on overhead charges than he should, until he has analysed the costs properly and compared his own costs with standard costs.

[a] Croxton & Cowden: *Applied General Statistics* (1939), p. 822.

It may be argued how it is possible to have data from other competing firms so as to arrive at approved standards. This is not an insoluble difficulty. For instance, in the course of my visit to England several years ago, I found that the numerous departmental stores of that country had devised an ingenious plan for improving their efficiency. Prof. Plant of the London School of Economics had prepared a detailed questionnaire covering nine pages asking for particulars about volume of sales, sale prices, purchase prices, rent and establishment charges, advertising costs, etc. These replies did not bear any names but bore secret check numbers known only to the Incorporated Association of Retail Distributors of which the departmental stores were members. These replies, however, were sent not to the Incorporated Association where these check numbers were known but to the Economics and Statistics Division of the Bank of England, who extracted the necessary data for studying the internal trade position and estimating the demand for currency, and published the results in their *Statistical Summary*. The check numbers on the replies were changed by the Bank of England into another set of numbers known only to them and the replies were then forwarded to the London School of Economics for final analysis. It was not possible for Prof. Plant or any of his assistants to know which departmental store had sent which reply. If they found any figure suspicious or had any inquiry to make regarding any reply, they had to write to the Bank of England in the first instance quoting the check number passed on to them. The Bank of England referred to their own register and found out the check number assigned by the Incorporated Association of Retail Distributors who finally wrote to their own member regarding the point raised by the London School of Economics. The system was made advisedly complex so as to ensure secrecy.

This made for intimate co-operation between business and research, and was productive of benefit to all concerned. A similar system may be tried out in India in important commercial industrial centres with the help of research workers in Statistics, which will improve not only the nature of data but also their method of analysis. The various commercial associations may be approached in the matter.

Sooner or later, an increased responsibility will have

to be borne by Indians in the future Government of India. They will be called upon to frame national economic policies. It is for legislators and administrators to decide whether a particular measure is to be adopted or not. But the statisticians should be able to state its likely advantages and disadvantages in precise and quantitative terms on which alone can the above decision be based. We all know the famous example of Wells about a mathematician who has correctly forecast the appearance of a star which will destroy civilization, but who still feels the joy that an intellectual achievement always brings. A statistician's satisfaction should similarly lie not in the fact that a particular measure is adopted or rejected but in the fact that he is able to draw theoretically valid conclusions from the data studied by him. Therein lies his independence and therein lies his glory. The teaching of Statistics should be directed towards that end for building up India of the future.

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ECONOMIC LITERATURE

Reviews of Books

STATISTICS: THEORY AND PRACTICE, by Professor M. K. Ghosh and Mr. S. C. Chaudhri of the Allahabad University. Published by The Indian Press, Limited, Allahabad. 1943. Pp. 508. Price Rs. 8.

The authors indicate in the Preface that the "book is an attempt to furnish a simple but comprehensive text for those who desire to equip themselves with a knowledge of the elementary statistical methods to enable themselves to handle statistical problems like skilled workmen . . . The treatment is non-mathematical." These claims have been fully justified in the book. The treatment is simple and the examples illustrating the different methods have been solved in detail, so that they can be easily understood. At the end of each Chapter selected questions in statistics from the question papers set at different Indian Universities are given, thus considerably facilitating the work of the student. In an appendix the authors have summarised some of the findings of the Bowley-Robertson Committee (1935) and this will be found especially useful as the Report of this Committee is now out-of-print. At the end of the book the Mathematical Tables are reproduced thus enabling easy reference.

The book contains twenty chapters and five appendices. The first three chapters are devoted to a study of the growth, definition, and functions of statistics. The next three deal with the problem of units, the collection, and editing of statistical data. The seventh chapter deals with statistical materials in India. The remaining chapters study the classification and tabulation of data, simple derivatives, statistical averages, dispersion and skewness, index numbers, diagrammatic and graphic representations, analysis of time series, correlation, association of attributes, interpolation, and interpretation of data.

Two problems—Index Numbers and Coefficient of Correlation—have been treated exceedingly well. In the chapters on index numbers the authors very lucidly treat the problems of the choice of base, reversibility, and the system of weighing. Fisher's "Ideal" formula and the Time and Factor Reversal Tests have been discussed in a simple and clear way. The basis on which the various available index numbers are constructed in India, Great Britain, and the United States is explained and critically estimated. In the chapter on correlation, Karl Pearson's Formula is discussed in full detail and a number of solved examples are given in illustration.

The authors have throughout the book maintained a highly scientific attitude, and all irrelevant matter has been scrupulously eliminated. They have relied upon the existing standard works on statistics for their material but the chapters on index numbers and correlation show much originality and freshness. Out of the existing text books on statistics for Indian students the book under review is by far the best and we heartily recommend it to university students and those members of the public who are interested in learning this subject.

P. C. JAIN.

MARKETING IN INDIA, by K. L. Govil of the Allahabad University. Published by Gautama Bros. & Co., Ltd., Cawnpore. 1943. Pp. 438. Price Rs. 7.

Since the beginning of this century the problem of marketing has occupied a much more prominent place than the problem of production in commercial world and economic literature. It is now being realised that the spread between the price paid by the consumer and the price received by the producer is too wide and must be narrowed. In the spacious days of 19th century in view of expanding population and extention of the colonial empire production received the most powerful attention, but since the beginning of this century in view of the large increase in production, and declining trends in population in Western countries, it is becoming more and more difficult to market goods and commodities. The various combination schemes in industry prove the contention of the above remarks. It is significant that most of these schemes concentrate on the marketing side and not on the production side. The Cement Merger and the Sugar Syndicate show that even an industrially backward country like India is faced with the marketing problem. The problem of marketing of agricultural produce is still more difficult. It can be said to the credit of the Government of India that during the days of last great depression when economy and retrenchment were the general rule, they provided ample funds for the opening of a Central Marketing Department. This department has so far published about a dozen volumes dealing with marketing of various agricultural commodities in the country. The volumes are very rich in information, but can hardly be utilized by the students of our universities and the general public, who have not the leisure to wade through these very formidable volumes.

This task has been very well performed by Mr. Govil in the present volume. This book deals with the theory as well as the practice of marketing in India. The author has very lucidly explained the principles of marketing and has provided ample information regarding the marketing of India's staple agricultural commodities like wheat, cotton, jute and rice. I have read a number of monographs on marketing and their study has left me with the impression that the same work could have been quite well performed by any person without knowing Economics. Most of those works have been only a compilation of facts. This is the first book that has been published in the country which reveals the pen of the economist in writing it and sets a model for future writers on such problems.

The book has been divided into four sections. In the first section the author deals with marketing functions, marketing organization and advertising. In the second section which relates to agricultural marketing in India, the author describes the chief characteristics of Indian Agriculture and the co-operative marketing of agricultural produce. The third section deals with the staple agricultural commodities such as wheat, cotton, jute and rice, and has a very useful chapter on market terminology. The chapters on 'Market Terminology' and 'Stock Exchange' are the two most useful chapters, especially the chapter on 'Stock Exchange' throws a flood of light on many problems and explains many terms which are seldom adequately explained.

It is to be very much regretted that a number of very important topics both in theory and practice of marketing are very sketchily treated. For instance, the discussion on a very important and complicated topic like a 'perfect market' has been dismissed in half a page, while in the practice of marketing the author has failed to give any detailed information regarding 'organized markets' in various parts of the country, their working and the results achieved.

The bibliography on the subject which the author gives at the end of this book needs much improvement. It should have been in alphabetical order and the author should have given the date, place and the name of the publishers.

I cannot resist mentioning in the end that both the author and his publishers have given a very poor proof of their knowledge as far as the practice of the marketing of this book is concerned. The book has been printed on a royal size, but there are only 28 lines to a page and very wide margins are left on all sides of the printed page. The entire matter of this book could have been easily compressed into half the number of its present pages and the book could have been marketed at lower price to secure better sales in the students' circles. In these days of paper scarcity and war economy it seems most absurd and wasteful to indulge in such luxuries. These are only minor defects in an otherwise good book.

As a matter of fact it is one of the very few good books on marketing that I have read so far and I strongly recommend it to all students of agricultural economics.

A. I. QURESHI.

REPORT ON THE ECONOMIC AND NUTRITIONAL SURVEY OF GUJARATI MIDDLE CLASS FAMILIES IN BOMBAY CITY, by Dr. V. V. Shah and Dr. M. H. Patel. Published by *Journal of the Gujarat Research Society*, Bombay. 1943.

It is a happy sign of the times that growing attention is being directed to the question of the improvement of the health and well-being of the different classes of the community. Measures to be devised and carried out towards this end, obviously need reliable information and its scientific interpretation. Effort in this direction has been recently made in respect of a section of an important community in Bombay City. Gujaratis constitute a leading commercial community in that City and the Gujarat Research Society conceived the idea of examining its economic and nutritional condition with a view to remedying deficiencies that might be discovered in the same. The investigation was carried out under good auspices and an interesting report has been produced by the two authors. The object of the enquiry was to obtain a fairly accurate picture of the income and expenditure of Gujarati middle class families, to ascertain the nutritional value of the diet of these people and to indicate ways and means to improve the position in that respect. For this work information was obtained from a number of families and it was analysed in its economic and nutritional aspects. The results of the analysis of expenditure have been

presented in the report in a number of tables. The peculiarities in this regard as well as that of diet have been clearly shown by groups of families of varied incomes. The result is a vivid picture of the economic and social position of the families of Bombay's Gujarati middle class as a whole. The improvements suggested are detailed and practical, flowing as they do from statistics carefully collected and compiled. The report has amply fulfilled the object of the enquiry.

V. G. K.

PRINCIPLES OF INDUSTRIAL ORGANISATION, by R. C. Chowdhury, M.Sc., Commerce Department, University of Allahabad. Published by A. K. Chowdhury, 4, Beli Avenue, Allahabad. 1943. Pp. 550. Price Rs. 9.

This neat and elegant volume gives an exhaustive description of the various forms and aspects of industrial organisation. The principles on which the organisation of industries are based have been explained with meticulous care. The chapters on Combinations, Trusts, Scientific Management, Rationalisation of Industry, Industrial Planning and the Evolution of Middlemen are particularly illuminating. The book has been written in a beautifully simple style and special care has been taken by the author to ensure that even the most technical points are understood by all.

I have taken some pains to examine the book from the point of view of pure theory. The chapter on Industrial Planning for which the author can claim originality has no blemish.

The book, the reviewer has no doubt, shall prove an useful reading to students and an illuminating reading to the general reader and prospective industrialists.

J. K. MEHTA.

NALANDA YEAR BOOK AND WHO'S WHO IN INDIA. Published by The Nalanda Press, Calcutta. 1943. Pp. 512+ xix. Price Rs. 5 8as.

The "Nalanda Year Book and Who is Who in India" is a very good publication for which the editor, Mr. Tarapada Das Gupta, M.A., should be congratulated. This contains varied informations on diverse topics such as Solar System, World Production, Trade, Shipping, Forms of Government, Legislatures of the World, British Empire, Dominions, India and her Constitution, Education, Local Self-Government, Commercial Organisations, Agriculture, Irrigation, Prices, Communications, Currency and Banking, Money Market, Budgets, Sports and various politcal organisations in this country, which are bound to prove useful to all in their daily life. A Year Book of this type can very well be recommended to the general public as a great source of general information on various subjects.

M. K. G.

OUR ECONOMIC PROBLEM, by P. A. Wadia and K. T. Merchant. Published by New Book Company, Bombay. 1943. Pp. 536. Price Rs. 6|8|-.

In this excellent book which deals with problems connected with our production, distribution and consumption the authors, as they point out in the Preface, have analysized the economic problems of India with a view to remove poverty. A sister volume dealing with problems of our trade, transport, currency, banking and finance is promised in the future. The authors have launched an ambitious programme and so far as it can be judged from the first volume, now placed in the market, they have done splendidly well.

In the chapters on Agriculture the authors have given a very clear picture of the present output of foodstuffs and raw materials, and at the present time when we are making effort to control the output of these commodities this information is particularly handy. The difficulties of Indian Agriculture are studied in detail and possible solutions have been suggested. The chapters on "Rural Debt and Rural Finance" and "Farm Accounts and Family Budgets" are particularly refreshing. In the section on Industries, the development and present position of a dozen Indian industries are discussed and though the treatment is short, it is by no means superficial. The chapter on Cottage Industries is somewhat weak and the authors could very well have discussed the organisation and present position of some specific industries in detail.

The book strikes a new note in the study of Indian Economics. It is very imformative and refreshing and we strongly recommend it to members of the public and especially to students in Indian Universities.

P. C. JAIN.

SYSTEM OF FINANCIAL ADMINISTRATION IN INDIA, by Dr. P. J. J. Pinto. Published by the New Book Company, Bombay. 1943. Pp. 435. Price Rs. 15.

In this long expected book the author has made available to the public detailed information on some highly technical matters connected with the Indian Budget. The book has been divided into three parts—"Theoretical, Comparative and Constitutional," "Central and Provincial Budgets," and "Other Aspects of Financial Administration." At the end the author has given specimen forms and extracts from important government rules in fifteen appendices.

The author has explained all matters connected with the preparation and passage of the Budget through the legislature. The channels which collect revenue and undertake expenditure have been studied in detail. The rights and duties of the various departments and officials connected with the Budget have been recorded. A comparative study of conditions as they prevail in India, the U. K., and the U. S. A. and some other countries has produced some very interesting conclusions.

The reader's attention has been drawn to the fact that in India the audit and accounts functions are entrusted to the same agency. On principle such an arrangement stands condemned though in actual practice the evils of the combined system are mitigated in several ways.

But after considering all the pros and cons the author comes to the conclusion that separation of audit and account functions in our country would not be advisable. The present system may be continued with some modifications. In connection with the classification of public debt the author records that the debt in India is classified into (*a*) permanent or funded debt, (*b*) temporary or floating debt, (*c*) unfunded debt and (*d*) loans from central government. But it is pointed out that distinction between permanent, floating and unfunded debt is rather arbitrary. Much of the floating debt is renewed every three months with great ease and therefore seems not to be very different from permanent debt. Unfunded debt is floating debt and the classification in Indian finance that tends to distinguish between the two is also arbitary.

The author recommends that not only new items but also the standing charges should be subjected to full scrutiny which however is not done at present in our country. He would prefer the formation of a legislative committee assisted by adequate staff and the Finance Department which would enquire into all items of expenditure every four or five years. Moreover, the concordants between audit and executive should be published and the public must be educated in matters pertaining to financial administration by due publicity of the various stages in the formation of the budget. Finally, the author gives a warning that in any future readjustment of financial administration in our country the centralisation of power into the hands of the executive should be retained in the interests of efficiency and economy.

Dr. Pinto deserves to be congratulated for having made a dry and difficult subject interesting. He has filled a long felt gap in recent economic literature in our country. The book will be found very useful by university students, the legislators, the legal profession and by members of the public who are interested in these problems.

P. C. JAIN.

THE FOOD PROBLEM IN PEACE AND WAR, by U. N. Ghosh. Published by the Minerva Book Shop, Lahore. 1943. Pp. 22. Price 8 as.

PRINCIPLES OF WAR ECONOMICS. Pp. 66. Price Re. 1 8 as. Authors and Publishers are the same as above.

In the pamphlet on food problem Dr. Ghosh points out that before the war India was more or less self-sufficient in matters of food but factors arising out of the war have created a shortage and the gap between demand and supply is from 15 to 20 per cent of pre-war supplies. In the immediate future every effort should be made to make the "grow more food" campaign successful, but from a long-period point of view the insurance of a regular minimum income and employment alone give hope of a permanent solution.

The pamphlet on principles of war economics offers a theoretical treatment of some economic problems to which war has given rise in our country. The author gives due importance to psychological reactions in determining shortages and hardships to which war leads. It is also clearly pointed out that in order to make post-war

reconstruction a success care has to be taken from now to follow sensible policies.

Both the pamphlets deserve to be studied by all of us. The printing and get-up are also praiseworthy and the publishers deserve our congratulations.

P. C. JAIN.

THE REPORT OF THE MILLOWNERS' ASSOCIATION, BOMBAY, FOR 1942. Pp. 343 + xlviii.

The Report under review was presented to the Annual General Meeting held on April 5, 1943. It contains a mine of information about the cotton textile industry in our country. In addition to the proceedings of the Annual General Meeting and abstracts of subjects dealt with by the Committee the Report contains detailed correspondence on all subjects dealt with by the Association. In a pocket at the end valuable statistical information is given about the cotton mills.

In presenting the Report to the Annual General Meeting the Chairman of the Association pointed out that due to the scare caused by the war and subsequently due to the movement launched by the Indian National Congress the cotton mills in India in 1942-43 produced nearly 4000 million yards of piecegoods as against 4500 million yards in the previous year. As to the future the industry is expected to thrive but the profits in 1943 are not likely to be as much as in 1942 partly because nearly 60 per cent of the productive capacity is now devoted to war work and this naturally gives less profits and partly because the Government control on the industry in the future is bound to increase. This is a very fair picture of the situation. On our part we shall draw the attention of the Millowners' Association to two problems. In the first place, though our exports of cotton piecegoods very rapidly increased during the war, nothing has yet been done to improve the organisation of our foreign trade. The petty export traders will not be able to safeguard the interests of cotton manufacturers in the future and it is the producers' organisation—and there is none better than the Millowners' Association, Bombay—which has to interest itself in this matter. Secondly, the problem of replacing the old and worn-out machinery in whole lots will arise in the immediate post-war period, especially because due to a heavy pressure of work the machinery has depreciated very rapidly. The Association has to interest itself in this problem from now so that the post-war period may not catch us unprepared.

P. C. JAIN.

STARVING INDIA, by Satyasandha. Published by Socio-Economic Research Centre, Calcutta. 1943. Pp. 56. Price 12 as.

In this pamphlet the author offers his views about the shortage of food. It appears that he places a very large share of the blame on "inflation." As a solution of the problem the author recommends the adoption of some sort of "real socialism," but it is not quite clear as to what this would be in practice.

P. C. JAIN.

Books Received

INDIAN CRISIS, by J. S. Hoyland. Published by Messrs George Allen & Unwin, Ltd., London. 1943. Pp. 195. Price 6 sh.

[To be reviewed.]

URBAN WORKING CLASS COST OF LIVING INDEX NUMBERS, by M. H. Mahmood. Published by Board of Economic Inquiry, Punjab, Lahore.

[To be reviewed.]

VITAL STATISTICS OF THE PUNJAB, 1901—1940, by Dayal Das. Published by Board of Economic Inquiry, Punjab, Lahore. 1943. Pp. 97. Price 12 as.

[To be reviewed.]

FARM ACCOUNTS IN THE PUNJAB, 1939-40, by Lal Singh and Ajaib Singh. Published by Board of Economic Inquiry, Lahore. 1943. Pp. 106. Price Rs. 1. 8as.

[To be reviewed.]

STATISTICS IN THEORY AND PRACTICE, by M. K. Ghosh and S. C. Chowdhary. Published by The Indian Press, Ltd., Allahabad. 1943. Pp. 508. Price Rs. 8.

[Reviewed in this issue.]

SYSTEM OF FINANCIAL ADMINISTRATION IN INDIA, by Dr. P. J. Pintu. Published by Messrs New Book Co., Bombay. 1943. Pp. 435. Price Rs. 15.

[Reviewed in this issue.]

PRINCIPLES OF WAR ECONOMICS, by U. N. Ghosh. Published by Messrs Minerva Book Shop, Lahore. 1943. Pp. 66. Price Re. 1. 8as.

[Reviewed in this issue.]

TRADE OF INDIA, by S. A. Palekar, M.Com. Published by the author, Vincent Chambers, Vincent Road, Dadar (G.I.P.), Bombay. 1943. Pp. 350. Price Rs. 6-8-0.

[To be reviewed.]

A PLAN OF ECONOMIC DEVELOPMENT FOR INDIA, by Sir Purshottamdas Thakurdas, J. R. D. Tata, G. D. Birla, Sir Ardeshir Dalal, Sri Shri Ram, Kasturbhai Lalbhai, A. D. Shriff and Dr. John Matthai. Published by the Statistical Department, Messrs Tata Sons, Ltd., Bombay House, Bombay. 1944. Pp. 54.

[To be reviewed.]

ELEMENTARY ECONOMICS, by S. N. Sen. Published by the Book Land, Ltd., Calcutta. 1943. Pp. 240. Price Rs. 2-8-0.

[This book has been written to meet the demand for some elementary book to cover the Intermediate syllabus of the Indian Universities. The book has been briefly written and is dependable. It is a good book on elementary economics written along traditional lines and also covers Indian Economics. The author has already written (in collaboration) *An Introduction to Economic Theory* which has become very popular with University students. The present book might well secure the same popularity with Intermediate students, especially in Behar, Calcutta and Bombay where Economics and Civics form one subject in Intermediate Class. The printing and get-up are nice and seeing the bulk of the book and the present high market rates of paper and printing, the price of the book is remarkably moderate.]

WHY THIS STARVATION?, by Minoo Masni. Published by the New Book Company, Bombay, 1943. Pp. 29. Price 8 annas.

[This admirable and fascinating booklet has come out from the pen of the youthful Mayor of Bombay, Mr. M. R. Masani, whose earlier work *Our India* has already made him well-known throughout the country. Like this earlier work, *Why this Starvation?* is simple, lucid and refreshingly proximate to practical and contemporary set-up. Mr. Masani calculates that even before 1941, there was a deficit of 110 billion calories in our food-stuff supplies; and "if each of us had demanded our full quota of food, 110 millions of our countrymen and women would have had to be exterminated." And since then, our food supplies have been cut short because of stoppage of rice imports from Burma, food supplies to Iran, Iraq and the Middle East and large armies stationed in India. Inflation, according to him, has led to hoarding of grain; but this hoarding is inevitable in the existing state of affairs. He fixes the responsibility of it on those who have waged the war and demands an increase in the cultivated area and imports of wheat. The book is written in a language and style which are sure to make an appeal to the general readers and we strongly recommend it to them.]

A HISTORY OF INDIAN CURRENCY, by M. V. Bhatwadekar, M.A. Published by the Popular Book Depot, Bombay (7). 1944. Pp. 180. Price Rs. 3-12-0.

[This little book on Indian currency " is a simple narration of the major currency events in India coupled with a brief review of the five currency reports." The "modest aim" of the author in writing this book has been to trace "the history within reasonable limits" for the benefit of students and general readers. In this the author has been generally successful. Students on the look out of an introductory book on the history of Indian Currency will do well to study this book. The final chapter gives in a handy form the recent developments from 1939 to 1943.]

AIMO PUBLICATIONS. (*i*) *District Industrialization Drive* by Sir M. Visveraya. Pp. 44. Price Re. 1. (*ii*) *Industries in Bombay City*. Monograph No. 5. Pp. 16. Price Annas 12. (*iii*) *The Rayon Industry*. Monograph No. 4. Pp. 25. Price Annas 12. Published in 1943 by the All-India Manufacturers' Organisation, Bombay.

[The most important of these three charming and nicely got-up AIMO booklets is the *District Industrialisation Drive* by the President of the Organisation. In this, Sir M. Visveraya sets out a practical plan for rapid promotion of industries, mainly of cottage and small-scale type, in rural areas and describes the constitution and working of the District Councils, Village Group Committees, City Councils and Township Committees proposed by him by organising which people can industrialize their country in a short time. We wish that this booklet should be widely read and though the people of this country instinctively regard industrialisations a duty of State, it would certainly impress them and let us hope help them to revise their attitude. *Industries in Bombay City* is a brief but good account of the industries flourishing in this "industrial metropolis of Western India," mainly based on information collected from official sources. Of the 1205 establishments located here, 384 belong to the engineering group and 208 to the textiles group. *The Rayon Industry* is a practical plan for the starting of this industry in India. According to AIMO calculations, an investment of Re. 1 crore in this enterprise would yield a profit of Rs. 18 lakhs per annum. There is a large national market for rayon or artificial silk of which we are large importers. We congratulate the Organisation and its President for the excellent work that they are doing and wish them all success.]

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PRICE POLICY IN WAR-TIME

BY

S. R. Bose, M. A., B.Sc. (Lond.)

Professor of Economics, Patna College.

War, more than anything else, is capable of shaking the social life of the community to its very foundations. It snaps old and long-established cultural, commercial, political and domestic contacts, and calls for far-reaching readjustments. New needs, new habits, new values and new methods of trade and organisation take the place of old ones. Almost no sphere of life escapes this new orientation. It is therefore no wonder that price mechanism—one of the most delicate and sensitive of economic seismographs set up under a regime of free enterprise—should record the effects of the cataclysmic upheaval brought about by war; and the shock may even be so great as to damage the instrument itself, necessitating its replacement by a new one, possibly of a different make. One thing is certain and it is that war has to be paid for, or, in other words, that war costs money. What this in its turn implies is that war creates a new demand for certain types of goods and services which it costs something to produce or purchase. It is not implied that all this new demand is a net addition to the old existing demand; for some of the new demands may simply be substitutes for the old ones. Thus if military boots and khaki shirts are required in war-time in large quantities for the new recruits to the army, they merely replace the demand for ordinary shoes and shirts which these recruits were making in civil life before joining up, but which they would no longer make. But some demands such as those for ammunition,

tents and antiseptics used to dress the wounds of fighting forces may represent a net increase of demand. No doubt it is not always easy to distinguish between these two categories of new demand brought about by war conditions. War may even increase the demand for articles which are not specially called for in furtherance of military operations, if the standard of comfort at which the army recruits are maintained is higher than the standard to which they were accustomed in civilian life. As war brings about an increase of demand for certain classes of goods and services, it may also reduce the demand for certain other classes of things. Thus by separating husbands from wives it may reduce the birth-rate of the community, thereby reducing the demand for the services of the accoucheuse.

How is the adjustment of supply to the new conditions of demand to be brought about and what effect will it produce on the price structure? A community, at any time, has a limited amount of resources in men and materials which is utilised either directly in producing the goods and services it requires for consumption, or in producing goods and services in exchange for which it gets the things it wants. If there is a net increase in the amount of goods demanded in war-time, there are three different methods of meeting this increased demand. Firstly, if there are unemployed resources, these may be pushed into service in meeting the extra demand for goods and services. Secondly, patriotic sentiments may cause women who ordinarily do not do much work, or old persons who have retired from active work, to enter the ranks of industry in wartime. It may even induce trade unions to relax their rules with regard to working hours, the weekly day of rest, etc., with a view to increasing production. Thirdly, the extra goods and services required may be procured from another friendly nation on a lend or lease basis without the necessity of immediately paying for them. If any or all of these methods combined do not suffice to meet the increased demand for goods and services in wartime, then it becomes a question of choosing between alternative goods and services; and since war necessaries must get priority over other goods, resources come to be utilised for their production at the cost of other goods which they were producing before. Where military demand competes with civilian demand for the same good, the public supply may be rationed, or the public may even

be deprived altogether of the good which is reserved for military use, as in the case of patrol. But how do all these effects work themselves out through the mechanism of public finance and prices?

The task of carrying on warfare is the business of the State and the State must provide the finance necessary for it. Except for a little voluntary and honorary work as that done by women in providing war comforts for the fighting men, most of the efforts needed for meeting the increased wartime demand for goods have to be paid for. Whether soldiers are conscripted for the war front, or workers are conscripted for the home front, they have to be paid for the jobs they are forced to discharge, even though the wages paid to them may, in some cases, be less than what they were earning or would earn in their normal occupations. The State may secure the necessary finance either by taxation, or by loans, or by inflation, or by a combination of all these. I am leaving out of account as of no consequence the voluntary or so-called voluntary contributions made by a few in furtherance of war purposes, as also the proceeds of war lotteries, charity performances, etc. Taxation is a transference of purchasing power from the citizen to the State, which the latter devotes to meeting its own needs, mostly unproductive in wartime, and thereby deprives the former of a part of his own consumption. Thus though taxtion has the effect of altering individual prices, the price level as a whole would not be much altered if the total volume of consumption goods produced remains the same. But this assumption is wholly unwarrantable in wartime. Tax income in wartime is mostly utilised in producidg and procuring goods and services which are not wanted by the ordinary citizen for consumption; and hence it has the effect of diverting men and resources from the task of satisfying the ordinary wants of life. Such taxation may, therefore, cause a considerable rise in the prices of consumable articles by reducing their supply, while keeping the total of monetary demand for them nearly the same.

Loans, whether coming out of savings or income, whether voluntary or forced, have much the same effect on prices as taxation. They too in wartime divert men and resources from productive to unproductive channels, and thereby raise the prices of consumable goods. Loans are but deferred taxation with the additional burden of in-

terest payments thrown in. It is all bunkum to say that by means of loans we can make the posterity pay for the war, unless some friendly foreign nation by means of lease or loan is prepared to undertake all the sacrifices of war-time for a belligerent nation. Loans may, however, have an element of inflation in them, and cause a double rise in the prices of consumable goods, if they are advanced by banks by a process of credit creation. The easiest though somewhat dangerous method of securing additional goods and services required for carrying on the war, is to pay for them by means of inflation, *i.e.*, by the issue of extra currency either directly by the State, or by borrowing from the note issuing bank which is at the same time freed from its obligation of maintaining the convertibility of its notes into gold. Inflationary finance is the source of a double rise in the prices of consumable goods; by with-drawing men and resources from the production of con-sumable goods to meeting the demands caused by war, it reduces the supply of the former; and secondly, by increas-ing the stock of money in the hands of the consumers to purchase this reduced supply of consumable goods, it in-creases the demand for such goods. Inflation moves in a vicious spiral, and when uncontrolled, degenerates into a race between the printing press and prices as to which can move the faster. Inflation in its effects is a veiled form of taxation with regressive effect, *i.e.*, the poor have to make a higher contribution in proportion to their income than the rich. I need not discuss here in detail the various devices such as the commandeering of foreign securities, foreign exchange, gold coins and bullion, etc., by means of which the imports of war materials from foreign countries are financed. In face of reduced exports to foreign countries necessitated by want of shipping space, diminish-ed production of exportable goods due to destruction of manufacturing plant by enemy action, or its diversion to the production of war necessities, the imports from foreign countries for civilian consumption have to be curtailed, if imports of war materials have to be kept up or increased. The effect of meeting the increased demand for war materials by importing them from abroad is, therefore, to raise prices, particularly the prices of imported consum-able goods.

We have now seen that whatever be the method of war finance adopted—and very often a combination of all the

different methods has to be adopted,—a rise in prices is the inevitable outcome of war conditions, which makes itself specially felt as the tempo of war gathers momentum. Yet no government can afford to contemplate with indifference and passivity the rise of prices; and for this there are some very good reasons. Firstly, the prices of the necessaries of life the demand for which is inelastic, are likely to rise the most, if there is a curtailment of supply brought about by the diversion of resources to the production of war materials, stoppage of foreign sources of supply, destruction of manufacturing plant by enemy action, or if there is an increese of money supply. Cost of living of the working classes is raised, and as wages fail to keep pace with rising prices, discontent becomes general. No Government, democratic or authoritarian, can, specially in wartime, afford to risk the discontent of the workers and the strikes, stoppages and political pressure which it gives rise to. To stabilise the cost of living some Governments would even go to the length of subsidising the sale of certain essential articles like bread and potato at prices lower than the cost of production. Secondly, the Government itself in wartime is a purchaser on a large scale of many of the necessaries of life such as food, clothing, boots, etc., to feed and clothe its expanding fighting forces. A rise in prices would compel the Government to raise more revenue to purchase its requirements and to pay its employees at higher rates necessitated by a higher cost of living. Thirdly, higher prices mean higher cost of living; higher cost of living is followed by higher wages; higher wages by raising the cost of production lead to still higher prices; and this in its turn is followed by still higher wages; and this game of the cat chasing its own tail goes on merrily till all confidence in the currency disappears and the normal exchange system breaks down.

The charmed circle has to be broken some where; and it is as well that the control is introduced at the price end as at the wage end; for if price is determined by cost, cost is also sanctioned by price (or as the economist would say, the conduction of value is both backward and forward); and if the price of the product is fixed, the prices of the factors of production would adjust themselves accordingly. Fourthly, sometimes the high prices charged from consumers are not due to an appreciable rise in the cost of production, but are caused by restrictions imposed on the

transport system in wartime which reduce the supply at particular places and times, as is the case in India with coal, salt and foreign medicines; or again, it may be caused by a reversal of the normal desire on the part of retailers to sell goods quickly, and the growth of a tendency to withhold stocks from the market in anticipation of future shortage of supplies and consequent rise of prices, as is possibly the case with kerosene in India at present. The second category corresponds to what the economist calls charging according to the cost of reproduction (the replacement cost of commercial terminology) rather than production. This kind of exploitation of the consumers by the dealers is known as profiteering; and in wartime when everybody else is called upon to make sacrifices in the interest of the nation, it hurts public sentiment to find somebody making undeserved gains. This evil can be tackled in various ways. The anticipated future shortage brought about by disorganisation of communications can be partially met by campaigns like "Grow More Food" or "Eat Less Sugar". Anti-profiteering laws may be passed, backed by a system of price-control, to keep prices near the cost of production. Alternatively, the extra profits may be dealt with by means of the Excess Profits Tax. As between a policy of price control and excess profits tax, the former appears to be preferable if it can be properly enforced; because the latter throws the burden of the tax on the poor consumers; and further, the excess profits may be easily concealed by manipulation of accounts and it may be difficult to tap them. More often, however, all the various devices are brought into operation simultaneously instead of relying on any one of them exclusively. Fifthly, we have seen that Government in wartime have to depend for their finance to a large extent on war loans. The success of war loans turns upon the possession of surplus funds by the community. This surplus is the outcome of an excess of income over expenditure. The money income of the community tends to go up in wartime owing to a reduction of unemployment, the drafting of women and aged persons into the ranks of industry, overtime work and longer working hours, and fewer strikes and lockouts. If this increased income instead of dissipating itself in purchasing the same or a reduced stock of consumable goods at higher prices, could be made available to take up war loans by a system of controlled prices combined with strict rationing

(this in effect would amount to forced saving), Governments would find the financing of war considerably easier. Mr. (now Lord) Keynes would even go farther, and rather than allow the increased earnings of wartime to push up prices, he would compulsorily deduct a part of the earnings of workers and make it available for war finance and only refund it to the workers at the end of the war. Sixthly, the burden of the war loan contracted in war time when prices tend to be highly inflated, will be greatly enhanced when with the return of peace conditions, as experience and theory teach us, the price level comes down. The principal of the debt when it comes to be repaid and the interest charges, though remaining constant in terms of money, will represent a larger amount of goods and services than when the loan was contracted.

The arguments for State control of prices as set out above, assume competition to be operative. But the forces of competition may be materially interfered with in wartime: foreign sources of competition may be practically eliminated, and even internal competition, specially in an undeveloped country like India, may be impeded by the impossibility of importing machinery and stores from abroad, and the restrictions imposed on transport facilities in the interest of military movements. The case for control, therefore, becomes all the stronger as with the weakening of competition the chances of exploitation of the consumer becomes greater. Even competition, to produce its beneficial results, must take time to allow its forces to work out their full effects; and time is so precious in wartime that short period or immediate effects more often dictate economic policy than long period or ultimate results. Thus if owing to an invasion of Burma, the supply of Burma rice is cut off, there may be a substantial rise in the price of rice in India till she can make suitable adjustments in the acreage of land devoted to different crops. In such a case the price of rice may have to be controlled during the period of transition.

Having now considered the grounds on which Governments seek to control prices in wartime, let us examine the implications of price control more carefully. Price control in wartime is mainly aimed at keeping in check the upward movement of prices; but it is certainly possible, in peacetime if not in wartime, to enforce price control with a view to check the fall of prices. The Government of

Bengal may, in peacetime, attempt to set up a minimum price of jute when the jute market is slumping; or the Government of India may, in wartime, fix minimum prices for the various securities it has issued. In fact the producers and dealers may justly urge that the Government has no right to prevent them from reaping the benefit of high prices, if it does not help them in cutting their losses when prices are slumping. The control may either fix a maximum price allowing fluctuations in the downward direction, or it may lay down a definite price which has to be adhered to by every dealer. The former method seems to have the advantage of allowing inferior or adulterated grades of the article to be put on the market at lower prices, but this would be ruled out under the latter method unless the grade is rigidly determined and specifically laid down. It is neither practicable nor necessary to control the prices of any but a few essential commodities largely demanded by the poorer sections of the community. Even in this limited list of commodities, every article exhibits a number of grades, qualities or varieties with a different price for each. All that is possible is to provide what the Americans call a "ceiling" for the price of that grade of a thing which is the most widely consumed. It is essential that the grade or quality should be clearly defined; otherwise, unless the grade for which the price is fixed is absolutely the lowest there is the possibility of deterioration in the quality of the article, such as the substitution of adultered ghee for pure ghee; similarly, if the price of a phial of patent medicine is fixed, the contents of the phial may be reduced. Though the price of only one grade of any article may be controlled, the extent to which the other grades of the article will feel the effects of the control will depend upon the extent to which the demand is capable of being shifted from one grade to another. It is possibly to overcome the difficulties arising from the existence of different qualities of a thing that the so-called "utility clothing" was evolved and its price fixed.

Another important point in connection with price control is the stage at which the price is to be fixed. The price of the finished article in the hands of the retailer may be regulated, leaving the semi-finished good and raw materials to adjust their prices in accordance with the price fixed for the finished article. This will work satis-

factorily only if the person in charge of each stage of production is strong enough to safeguard his own interest. If there happens to be a weak link in the chain, it is likely to be squeezed. Thus if the price of rice sold by the dealer is controlled, with a view to prevent him from making high profits by charging a high price for it, the result may only be that the profits of the dealer are not curtailed in any way, but the poor cultivators of paddy are compelled by the dealer to accept very much lower prices than the price fixed for rice would justify. There is yet another danger. If the price of a finished commodity, say ghee, is controlled, but not the price of other products like butter, or raw materials like milk, the consequence may be that the price of milk will remain high and be used for making butter the price of which is uncontrolled, and will cease to be sold to ghee makers. It is needless to add that the fixation of the price of a commodity will be largely nugatory unless the prices of all its rival and substitute commodities are also regulated. If the control of prices at the finished stage is beset with difficulty, the control at any earlier semi-finished or raw material stage, will present still greater difficulties. To be effective, therefore, price control must take within its purview all the various stages of production and distribution.

The area over which a price fixed is to be operative should also claim attention. Here the question of transport-cost is important. The nearer the source of production, the lower the price to be charged. Account must, however, be taken of alternative sources of supply. Thus if a town depends for its milk supply partly on milk produced within the town itself, but mainly on milk imported from outside, what is the extent of allowance to be made for transport charges in fixing the price of milk? An economist will say it should equal the cost involved in transporting milk from the most distant source of supply which is nonetheless essential for meeting the town's demand for milk. In any case price differentiation must be allowed not only between different towns, but between different markets in the same town. If there are alternative methods of transport, the cheapest one which can carry all the necessary traffic, is the one to be reckoned with. All unauthorised charges which, all the same, the dealers are accustomed to pay such as tips to railway

officials, etc., should not be left out of account. If the control takes under its protective wing both retail and wholesale prices, it has to decide by how much should the one be allowed to exceed the other; perhaps the normal pre-war practice in the matter will provide it with a guide. Again, presumably the price fixed is the cash price; and when sales are made on credit, the price charged must be allowed to be somewhat higher. Similarly, price differentiation depending upon conditions of sale (whether sold in bulk, or in containers or wrappings; whether handed over across the counter, or delivered at customer's residence) will have to be permitted. The division of joint and general costs, such as the rent of the shop, wages of selling assistants, etc., among the different products to be sold, is a highly technical matter which can only be handled satisfactorily by an expert. If as a result of price control, particularly when Governments or Local bodies set up their own shops, the services of some of the intermediaries can be cut out, the price should be correspondingly reduced. Similarly, if as a result of air raid danger the risk of the producers and dealers is increased, the normal profit margin allowed to them should be raised. Finally, complete and reliable statistics of production, stocks, sale and consumption should be available to the controlling authority, otherwise there is a danger of its playing into the hands of the dealers.

Assuming that somehow the correct price has been ascertained and fixed, for what period is this price to be operative? The obvious answer is till something has happened to justify a change in the price. But if the practice is followed of issuing price lists only once a week, as is the case in the town where the author lives, it may give rise to some difficulties. Thus if during the currency of a price list something happens to raise the cost of an article, such as a rise in railway freights or cartage rates, its effect on prices is delayed for a number of days, with the consequence that sellers anticipating a revision of the price list next week, may refuse to sell till the revised list comes into operation; or if they are compelled to sell, naturally grumble at the loss of profit which they might have made if prompt action had been taken by the controlling authority. Most commodities show marked seasonal variations in price, and these have to be provided

for. A very interesting question is whether a speculative market can develop in a commodity the price of which is controlled; and if so, whether it should be allowed to develop. I am inclined to answer both the queries in the affirmative.

The task of the controlling authority does not end with the issuing of a price list. It must see to it that the consumers do get their supplies at the prices fixed. Even when the prices fixed are reasonable and allow fair remuneration to everyone concerned, the dealers are likely to harbour a grievance if they are deprived by the control of the extra profit which they find an opportunity of making in the abnormal war conditions. The propensity to hoard and withhold stocks from the market becomes very pronounced on the part of the dealers, especially if they think that the control will be ineffective and ultimately withdrawn, or that it will allow generous increase in price in the future. This has to be prevented by effective supervision so that a "black market" does not grow up. The absence of the practice of giving cash receipts for goods sold makes supervision all the more necessary in India. The buyers, on the other hand, anticipating continuous rise of price in wartime and being uncertain of future supplies, try to lay in as much stock as their means and storing capacity will permit. This is the familiar economic fact of persons fleeing from money into goods, which raises the velocity of circulation of money in times of rising prices. It is unreasonable to expect that the dealers will be able to meet this abnormal demand of the consumers and some kind of rationing becomes necessary. A very rough form of rationing has been introduced in India such as not selling to a single customer more than one rupee worth of any good at a time. But this can be easily circumvented. It is only in the case of patrol that anything like a scientific type of rationing has been attempted in India so far. To meet difficulties of a similar type the Government of U. S. A. has recently prohibited instalment sales. If the prices of only a few articles are controlled, and the dealers in these articles find opportunities of making large profits by takling to other lines of trade, it is possible that the Government may have to open its own shops to sell articles at listed prices. Similarly, if a manufacturer produces from the same raw material, say steel, two different articles

such as rails and joists, and the price of only one of these products, say rails, is controlled, then he may decide to give up manufacturing rails and confine his activities to joist making. In that event the Government may itself have to take up the manufacture of steel rails for the market and sell them at the controlled price.

Lastly, a word may be said about the administrative machinery of price control. It is very necessary for the success of price regulation to have a centralised control. Even if the work be entrusted to the Provincial Governments, it is essential to establish close co-ordination between them; otherwise they may be playing at cross purposes. Thus if after making due allowance for differences in transport costs, the Government of Madras fixes a higher basic price for sugar than the Government of Bombay, then all the sugar will gravitate towards Madras and Bombay may be left without any sugar. The difficulty of the work of price control has been enhanced by the policy pursued by certain provinces of prohibiting the export of supplies to places outside the province. This has necessitated the appointment of a Wheat Commissioner and a Sugar Controller by the Central Government for alloting quotas and fixing prices of wheat and sugar in the different provinces of India. The persons in charge of the machinery of control should have some insight into economic problems in general and marketing in particular; they should be sympathetic and honest. Price control is particularly difficult in India in the absence of reliable statistics of production, stocks and consumption, the lack of grading facilities, the non-emergence of the habit of granting cash receipts for sales, the want of strong organisation of producers and dealers, and the existence of a large number of semi-independent provincial governments and States. The standard of efficiency and honesty of our public servants is certainly not as high as in Great Britain. Speaking of the results of price control in Great Britain Mr. (now Lord) Keynes says, "Shop shortages and queues lead to great injustices of distribution, to an abominable waste of time and to a needless fraying of the public temper". But if the difficulties of control are greater in India, the necessity for it is probably less, in as much as the persons vitally interested in it are the urban wage earners and salary receivers, who form as yet a very small proportion of the total population.

What then are the limitations of price control? Effective price control involves regulation of prices all along the line in the march of production from raw materials to finished products. This is only possible where all the stages of production are performed under the jurisdiction of the same controlling authority. Prices of goods imported from abroad, or from another province, admit of only partial control. Conflict of interests between different provinces is another impediment to the introduction of control. The Punjab which grows wheat for distribution among the other provinces, Bihar and the U. P. which produce sugar for providing a supply to the rest of India, Bombay which produces cloth for export to places all over India, may each want that its special product should be excluded from price control, so that it may improve its position *vis-a-vis* the other provinces. Adventitious gain accruing to dealers owing to shortage of supply, can be more easily controlled than the loss incurred by, say the growers of jute and lac, if they find that as a result of outbreak of hostilities, the chief foreign markets on which they depended for selling most of the produce, are cut off and in consequence price slumps. To maintain prices Government may have to remove all the surplus stock from the market by itself purchasing it at controlled prices; and then either destroy it, or hold it over, if possible, for future sale. Further, control of prices logically involves control over the distribution of resources. If the temporary shortage of a commodity is prevented by means of price control from raising its price, then some substitute (such as propaganda or regulation) must be found by the Government to replace the motive of private gain, which when prices are free to rise, induces the producers to divert more resources to its increased production. It has already been seen that practical considerations rule out the application of the machinery of control to any but a very limited number of essential articles. That being so, what is there to prevent the producers and dealers in the controlled commodities from abandoning their line of business in favour of some other, where, in the absence of price control, the chances of extra profit would be greater? The profit motive would be backed by the desire to escape the vexatious attentions and inquisitorial methods of public officials in deciding them to adopt this course of action. Even in the limited field of strictly essential commodities,

some rise of prices in wartime is unavoidable. Thus if the conscripted or expanded army is maintained at a higher standard of comfort than what the soldiers were accustomed to in civilian life, the total demand for many of the essential articles would now be greater than before. If the extra supplies of some of these products such as wool and cotton for winter and summer clothing can only be procured at higher real cost, *i.e.*, if they are subject to decreasing returns, then even without any increase in the rates of remuneration of the agents of production, the money costs of these products will have been enhanced. The control, with all the good intentions in the world, will fail to stop this rise of price. If owing to an increase in the real cost of goods or a shortage of their supply, the cost of living rises, there would be clamour on the part of the low paid employers working under Government, Local bodies and private employers for dearness allowance. If this demand is conceded, as has been done in India, the beneficiaries may be able to maintain their economic position intact, but it does not solve the problem created by a shortage of supply or a rise in the real cost of production, which is that some one has to go short. The payment of dearness allowance simply brings about a redistribution of income; and the more universal the payment of dearness allowance becomes, the less effective it is to serve the purpose for which it is intended. Price control and dearness allowance are thus incompatible. If the Government wants to follow the policy of keeping prices under control in wartime, it is essential that it should attempt to stabilise wages, profits, interests and rents; and above all, avoid the methods of inflationary finanace.

ECONOMIC CONTROL IN INDIA DURING THE WAR

BY

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> "There are only economic and uneconomic ways of achieving given ends."
>
> L. Robbins.

> "Next to military and naval victory, a victory on the economic front is paramount."
>
> President Roosevelt.

During three years of the Great World War No. II, the world has seen the most magnificent experiment—social as well as industrial—made possible by the mechanisation of war but for which even an outlining of the experiment should have been unthinkable. "Total war effort" implies not merely the maximum destruction of men and material amongst the belligerents, but also the maximisation of production with a bias for war man-power and material and maximum avoidance of waste (meaning non-war waste). It further implies drastic reduction in civilian consumption consistent with the preclusion of a possibility of a deterioration in the standard of life. The maintenance of the purchasing power of the currency is also an integral part of the war effort, for ensuring the maximum use of resources for production. "Economic control" is a huge laboratory with numerous apparatuses and tools, and different kinds of switches and plugs, propelled by the same power plant, operating in different sections and in varying ways, but all resulting in the same use, namely, maximum war effort of the best quality. Economic control is one integral whole, depending for success on the co-operation and co-ordination of the constituents. Grenville Holden wrote in 1940:

> "Mr. Keynes' proposed "income-tax" loan and the case for direct rationing and exchange control are complementary devices having a single

> objective: release of economic resources for military purposes without inflation."

In the words of the *Economist* dated October 21, 1939,

> "No price control measure can be effective in an economy where such fundamental factors as the quantity of money, the level of interest rates, taxation and the amount of goods available are regulated on entirely different principles or simply left to look after themselves."

A. What is Economic Control?

The main features of economic control as practised among the principal belligerents are these:

1. Victory in the war is the given end and the task is to achieve the end in the most economical manner, an axiomatic condition accepted at the same time being that there shall be no ceiling with regard to war expenditure.

> "Professor Robbins will not allow us to say that war was bad from an economic point of view. If the anticipated result is worth the sacrifice, then there can be no economic objection."
>
> E. Cannan.

2. Subject to adequate provision for victory, social stability shall be safeguarded through maintaining both a floor and a ceiling for prices, cost of living, wages, interest rates and profits. This objective is typified by the recent announcement in the U.S.A. of the Director and Board of Economic Stabilisation.

3. Social stabilisation shall be from the long range view-point. Great care is taken in conserving the labour potential, the capital assets and the natural resources—so that when victory is won, there shall be minimum disturbance to social welfare. The industrial revolution in the 18th and the 19th centuries, brought with it huge 'conscious' waste and severe class conflicts. War experience now must enable men to emerge from this war infinitely more sober with a really democratic psychology: the first sign of this is the Atlantic Charter. And the economic control system developed during war time is bound to be cumulatively accentuated in post-war reconstruction as well.

4. A closer contact has been established as between the administrative and the academic circles, the latter commanding nowadays tangible tolerance if not the respect of the former. Economists are busy setting for themselves *real* problems facing society: the armchair has been relegated to a corner.

5. Mainly on account of this, there is nowadays a great deal of publicity about both policy and data. The White Paper issued by the British Treasury (containing facts and figures about war finance) and the recent publication of certain figures by President Roosevelt in connection with the Anti-Inflation Act, are examples. This publicity helps the Governments in securing greater confidence and co-operation of the nationals.

B. Apparatuses and Tools.

In practising economic control, the belligerents have invented a number of apparatuses and tools, the more important of which may be enumerated now.

I. *National Income.*

The supreme objective is to maximise production, specially of war material. The British national personal income rose from £4648 million in 1938 to £5596 million in the calendar year 1940, and to £6207 million in 1941. In terms of the purchasing power of the £ in 1938, the national income of Britain was assessed at £5587 million in 1938 and at £6700 million in 1942. That is, the British national income rose by about 20 per cent in four years. The national income of the U.S.A. rose from 88 billion dollars in 1939 to 133 billion in terms of the purchasing power of the dollar in 1939. The national income of the U.S.A. is rising by 2 per cent every month since January, 1941. By February, 1942, industrial production in the U.S.A. rose by 68 points (base period—1935—39). In India on the other hand, the latest estimate (and that unofficial) relates to 1931-32, and the national income is said to increase by one per cent per annum.

And then, a penny saved is a penny gained. Availability of products for war purposes is maximised by reducing civilian consumption to the rock-bottom level (subject of course to keeping the potential recruits healthy), prohibition of private investment, and disinvest-

F. 3

ment of capital. In Britain, the amount made available for war purposes by reduction in civilian consumption amounted to about £600 million at pre-war prices, and disinvestment and postponement of new investment and maintenance of past investment amounted to £1500 million in 1941. Men and material are the parents of the national income. The *Economist* said:

"Money can be grown more easily than food."

Measures leading to economy of men and material are:

1. All men and women are registered for national service, of course by instalments. In some cases, even enemy nationals are registered on proof of their loyalty to their adopted country.

2. There are Employment Exchange Commissions and Labour Trustees who "comb out" skilled labour from industrial concerns and despatch them to other places where they are needed. Thus, labour "hoarding" is made impossible.

3. Products are standardised. For example, trams, paper, knives and clothes are reduced in variety in Germany, but production is enlarged by this both quantitatively and qualitatively.

4. "Excessive manufacturing and adding of value to cloth" is prohibited in Germany.

5. Available material is used for the longest possible time, as for instance through freezing in the case of perishables and secondhand exchanges for shoes and clothing.

6. Conservation and reclamation of raw material is another avenue for economy. Scrap relating to paper, rubber, oil, iron and copper is carefully collected and used for the concerned industries again. In Germany, 25 per cent of used oil is claimed to have been collected.

7. Overtime labour and intensive cultivation also help in adding to output. Ninety-six hours in any two consecutive weeks is the present maximum in Germany. During the three pre-war years as compared to three years preceding, the yield of wheat in Germany was increased by 16 per cent, of rye by 13, of barley by 12, of oats by 16, of potato by 15, and of sugar-beet by 9 per cent.

8. Subsidy is granted for ensuring the supply of necessaries of life either by local growth or by import.

Britain spends £63 million per year on subsidising the growth of wheat and other breadgrains, potato and milk.

9. Other concessions, facilities, exemptions, guarantees and direct control are resorted to suiting different situations. For instance, in Britain there is the Export Credits Act which offers special financial facilities for export trade which strengthens British position with regard to imports both of foodstuffs and military requirements.

10. The "eat the surplus" campaign set up by the Federal Surplus Commodities Corporation in the U.S.A. was not a war measure in the beginning, but must prove very effective in war time. This Corporation purchases excess stocks grown in the country of things like fruit, milk products, etc., and distributes it *free* through blue stamps to relief receiving families—whereby the latter get additional free superior feeding thus helping in the raising in the national standard of life, and the grower is saved from a collapse of prices.

11. There is a high degree of integration of food growth and war effort in Germany. Frederick Strauss writes:

> "The use of prisoners and forced labour on German farms, the availability of French fertiliser supplies, the confiscation and utilisation of the conquered nations' rolling stock and transportation systems, their food deliveries as well as their enforced co-operation in the industrial field are strengthening the food situation in Germany and helping to sustain the total war effort."

12. Rationing is taken to for enforcing a national maximum of consumption of the rationed good. In Germany, consumption of food is estimated to have decreased by 5000 million marks, and of manufactured articles by 9000 million marks by February, 1941, as compared with pre-war consumption per annum. More than three-fifths of retail expenditure in Britain is now within the province of rationing, and civilian consumption was reduced by about £600 million at pre-war prices, in 1941.

13. Non-rationed goods are heavily taxed: in Britain there is the Purchase Tax which goes up to 25 per cent in

the case of luxury articles. School children's collars, frocks and shoes are exempt, but if the boy or girl has a thick neck, is tall or has rather big feet, the exemption goes.

14. Regional equalisation bureaux work with the object of making every region self-sufficient as far as possible, thus trying to conserve shipping and railway space for war work.

15. Industrial research is carried on with particular reference to special problems of destruction as well as production.

16. Statistical publications are reduced, keeping on only those which are "necessary and justified": the saved labour and material are made available for war purposes.

The observance of the *principle of priority* has added to production quantitatively, and to the more intensive use of a given amount of product in numerous ways, among which are the following:

1. "Old men's corners." Superannuated men and women are employed in kinds of work that can be done by them.

2. "Women's land army" in Britain. For increasing the cultivated area both horizontally and vertically in that country, women in villages are made responsible, thus releasing men for the front or other heavier kinds of work.

3. War work in kitchens and cattle sheds. In Britain, women of 44, many of them grandmothers, do war work along with their household duties.

4. Younger women are trained to do war work of all kinds including munitions manufacture: the only item excepted is actual fighting.

5. Modification of food plans. In Germany, the following changes were planned in growth of food, with a view to maintain a larger population from a given acreage of crops. The "battle of agricultural production" was intended to produce in war years 11 million tons of wheat instead of 9 as in peace years, and potatoes were planned to be raised from 12 to 17 million tons annually. On the other hand, meat requirements were reduced from 3 to 2.5 million tons, fat from 1.5 to 1.2, and milk from 7.5 to 4·5 million tons. In Britain, all pastures and parks are being ploughed up in order to grow the largest possible wheat crop at home. A recent issue of *Indian Information* contains a picture of the ploughing up of the garden

in front of the Government House at Peshawar, but the question is how far such a thing is followed up throughout the country.

6. "Three million dogs eat 100,000 tons of bread per year in Germany." The use of breadgrains for feeding domestic animals is prohibited in Germany.

7. In Britain, fodder is made available first for ensuring the milk supply, then for maintaining cattle and sheep for meat, then for pigs and poultry, and last for special farms depending entirely on bought fodder. In proportion to insufficiency, supplies are reduced or closed from the last item upwards.

8. Non-essential concerns are mostly closed down and small payments are made to them from the National Maintenance Levy for keeping the concerns in working order—just with the bare "entrepreneur's wage."

9. Maintenance of past investment is postponed. Fifty per cent tax is levied on depreciation allowances made in annual accounts of businesses.

10. Private investment is prohibited so that material must be available for war work.

11. Luxury goods are so rare and so heavily taxed that for making presents (as in Christmas time), no "practical gifts" can be seen in shop windows. No, "evasive" goods like electric shavers, automatic record tuning gramophones and paintings flood the market.

12. Transport priority. The coffin containing the remains of the Duke of Kent was conveyed from Scotland to London, according to Reuters, in an ordinary parcels van. Shipping space is not available without priority certificates issued by the competent authority.

13. Substitutes. Buna, synthetic oil and egg, German "coffee" and "rice" (the latter containing 80 per cent of potato flour), skimmed milk, "milk powder," artificial pepper, "timber bonus" for works which take in more of timber in place of steel, lower prices for "Thomas" steel, 50 per cent. Government subsidy for industrial concerns changing to nongas fuel on the cost of the new equipment—these are only some examples of home products taking the place of imported ones, or consumed on account of insufficient local production of the original article. In Madras, a groundnut oil lamp has been announced, but in order to popularise this, propaganda by example as well as precept is called for.

11. *Price Control.*

The competitive price structure plays but a small part even in peace time, even in capitalist countries. In communal production for communal as well as competitive consumption, the cost-utility-price relation is blurred. In competitive production for competitive consumption, it plays a prominent part in peace time, but during war, even in this field, routine pricing procedure must give place to positive price policy. Business price policy is superseded by public price policy, and "free" prices gradually give way to regulated, and then to administered prices. The very objective changes when peace is succeeded by war: in peace, maximum social welfare is ordinarily considered identical with maximum consumption, but in war, the same ideal of maximum social welfare necessitates drastic reduction in civilian consumption. The three main elements in the "level of prices" are (1) the prices of industrial raw material, (2) prices of raw foodstuffs, and (3) the cost of converting material into finished products (including of course distribution costs). Price control in Britain is partial and is intended to mitigate social hardships while in Germany it is "total" and is the "central piece of economic policy." The general idea is to save the consumer during war and the producer in the post-war slump. Effective price control has to take note of

1. the size of supply in relation to demand,
2. the different positions of different commodities in relation to demand, and
3. the elasticity of the supply of the factors of production in the case of each controlled commodity.

Price control ordinarily means stabilisation between a floor and a ceiling, but in special circumstances it might mean positive adjustment of the price level towards social stability. Compared to August, 1939, farm prices in the U.S.A. rose by 85 per cent by September, 1942, and yet there was a serious opposition to put an inelastic ceiling on further rises in farm prices, during the passage of the Anti-Inflation Bill. As already mentioned, price stability might involve, as in the case of Britain, heavy annual subsidies, and heavy purchases of surplus stocks as in the

U.S.A. in India, we are still at the gates. Mr. N. R. Sarkar recently defined price control in this country as

> "to strike a compromise between the imperative necessity of increase in food production by allowing prices to rise up to a reasonable level, and the equally important task of safeguarding the interests of the consumer. Thus, certain prices may have to be fixed low enough to permit the poorest consumer to buy adequate supplies of the proper foods, but high enough to enable the producers of marginal efficiency to contribute to the supply required, or again high enough to force consumers to use substitutes more easily available in war time."

This is little better than routine pricing procedure, not giving any attention to supplies of the factors of production concerned and costs. It is no surprise that price control is still in the theory stage in this country.

Price control is of fundamental importance in tackling war and post-war production. On this depends the cost of living, and the latter in its turn proves the most effective weapon against demands of labour for higher wage rates. Higher wages not accompanied by corresponding increase in real goods available for civilian consumption must lead to inflation. The Germans are most alive to this: their slogan is

> "price-stop: wage-stop: money-stop."

President Roosevelt said recently:

> "Even if a stabilisation of all prices and wages at the present levels is achieved, there would still remain great upward pressure on the cost of living created by the vast amount of new purchasing power."

The Calcutta index of prices of foods and manufactured articles which was 100 in 1914 and again in August, 1939, rose to 153 in February, 1942, and to 192 in August, 1942. In Bombay, the cost of living index rose to 152 in January, 1942, the base year having been 1933-34. In Mysore it was 144 in July, 1942 (base year—1935-36). The cost of living index was 128·5 in Britain in April, 1942 (August, 1939—100). In the U.S.A., it was 112·6 in

February, 1942 (1935—39=100). But since May, 1942, when the price ceilings were set, cost of food has been rising $3\frac{1}{4}$ per cent every month. This was the reason for the quick passing of the Anti-inflation Act.

Among the numerous steps taken towards efficient price control are the ones mentioned below.

1. Supply control: prohibition of export except under license: imports by special negotiation: transfers from 'surplus' areas to 'deficit' areas: allocation of the supplies among a few licensed dealers, and maximum dis-hoarding of both past and current production from the public.

2. Regional maximum price fixation, based on average cost, transportation expenses, standardisation and or cutting out the retailer's profit.

3. Up to date information about supplies and sales. In Germany, there is a 'paper war' due to numerous returns and correspondence—on which dealers have to sit long into the night.

4. Rationing—simple, as per head or family, and differential, in view of machine owned or work done

> "The present food rationing system (in Germany) tries to maintain the differentials in consumption between average adult consumers, heavy manual workers and extra-heavy manual workers, as they prevailed before the war. In 1936 and 1937, heavy manual workers consumed roughly 30 per cent more bread, 70 per cent more meat, and 120 per cent more fat than the average adult, according to budget studies."
>
> Q.J.E., page 369, May, 1941.

5. Points and coupons. There are varying numbers of points required for woollen, woodwool and other suits in Germany. Tailors maintain numerous point deposits. Travellers' coupons and shop coupons are hard to interchange. Money is "vagrant" for want of use (little consumption possible: no investment). Ration cards have displaced money considerably.

6. Penalties. In Germany, convictions are numerous on infringement of orders. Not to have sufficient pressure in motor tyres, and running faster than 35 miles an hour are criminal offences. In March, 1941, there were 3975 convictions in Berlin City alone for infringement

of price control orders. In India, there was recently an A. P. telegram in the newspapers on the conviction of a merchant for evading price control!

III. *The Wage Structure.*

Apart from the usual factors of marginal efficiency and marginal cost of production (that is, of living) which affect the wage level in peace time, with minimum interference from Government, other elements come in during war time. The bargaining power of labour in each industry, specially of military importance, exerts much influence. Secondly, labour in industries that escape Government control for a longer time, manages to secure bigger rises than in controlled ones. Thirdly, specialised labour like engineers for instance, demand rise in wages *just* for maintaining the 'differential' between their own wages and those of other lines generally compared. In Britain, higher wages in non-essential industries proved an impediment at one stage to the diversion of labour to essential industries. In December, 1941, the policy of stabilising the cost of living by subsidising the supplies of necessaries was launched. In the spring of 1941, five million labourers were taxed, about 50 per cent of the tax receipts being repayable after the war.

> "The aim has been to prevent the extra purchasing power created by extra earnings and increased wage rates, from being spent."

Also in April, 1941, the principle of increased wage rates for increased production was accepted. For example, the 'coal bonus' depends on the extra coal produced. In war time, even with "Essential Employment Orders" freezing the wage rates in essential industries, the wage roll tends inevitably to swell. Compared to 1938, the British wage roll rose by 69 per cent in 1941, the contributory factors having been

(a) increase in civil employment (numbers),
(b) overtime earnings, and
(c) net increase in wage rates.

In the third quarter of 1941 compared to the third quarter of 1940, hourly earnings of all workers in Germany rose by 5 per cent., of skilled workers by 5·3, of unskilled

F. 4

workers by 4·2, of skilled women by 7, and of unskilled women by 4·5. But weekly earnings of all workers rose by 8·6 per cent. The annual wage and salaries bill in the U.S.A. has risen from 43,700 million dollars in 1939, to 75,000 million in 1942. In Germany, wages lost during alerts can now be demanded up to 90 per cent., and employers are compensated from the Unemployment Insurance Fund. It is a significant point that in Britain, the terms of remuneration to the ranks of the Forces are less attractive than in civil employment.

The following are among the measures resorted to for maintaining labour efficiency and at the same time preventing wage-induced inflation:

1. The Essential Work Order freezing wages in essential industries.

2. "Up-grading" of labour to higher earnings according to efficiency.

3. Grant of over-time allowances, separation allowances, rent allowances, and 'dowry bonus' in the case of domestic servants.

4. Taxes on wages above an exemption limit, as in Germany, and 'deferred pay' as in Britain.

5. Tying up the wage level to the cost of living level. In Britain, the wage level had risen by 26·5 points by April, 1942, while the cost of living had risen by 28·5 (August, 1939=100).

6. Diverting the huge increases in the wage roll from the consumption commodities market by stimulating savings

(a) voluntary—for example, deposits in savings banks and interest free loans and purchases of war bonds, and subscriptions to Christmas, Hurricane, Winter and other funds:

(b) "forced" (consequent on the non-availability of consumption goods belonging to the category of luxuries on account of relatively smaller production or higher taxation or both, and the prohibition or discouragement of private investment):

(c) 'compulsory'—through taxation and "deferred pay":

(d) collective—through savings banks, insurance companies, etc.:

(e) 'automatic'—"the saver has no choice and the State need not bribe him"; and

(f) 'iron'—the special conditions for 'iron' savings being

1. permitted only in the case of wage and salary earners and not businessmen and independent workers:
2. exemption from income and wage taxes and social insurance contributions to the extent of the 'iron' saving: this very often means no reduction at all in wage on account of lower rates of taxation applying: Germany loses about £120 million per annum by such surrender of taxes on 'iron' savings, but she makes much more than this by way of borrowing from such savings:
3. deduction is made at the source, and three months' notice has to be given for change in plan or cancellation of the saving:
4. the saving has to be in units of £1 or £2 and not in small cash:
5. in addition to standard amounts, overtime earnings also can be saved up to £1 per month; and
6. the amount saved thus is blocked for the duration of the war.

7. Strikes and lock-outs are illegal, and all disputes must be settled by arbitration or through a tribunal.

IV. *Monetary Policy*

A. C. Pigou points out that between wage induced inflation and deficit induced inflation, the latter is more controllable. So far as ways and means are concerned, that has been done much more by increase in taxation and borrowing than by adding to the quantity of money in circulation. In Britain, the fiduciary limit was £630 million at the outbreak of the war, was reduced to £580 million in the succeeding weeks, and stood at the end of June, 1942, at £830 million. Borrowings in Germany have been of late about 5000 million marks monthly, and the national debt stands much in excess of 150,000 million RM. In

India, during three years of war, currency has been added to by Rs. 371·89 crores while the war borrowing was about Rs. 135 crores. It is no surprise therefore that inflationary conditions are more conspicuous in India than either Britain or Germany. The *Indian Finance* said :

> "The forced restriction of general consumption has not inhibited the general rise in prices. It is clear that inflation has not produced its own remedy."

The fact is that forced restriction of general consumption is mostly on paper in India. The bulk of the masses are out of the picture as they are much below the minimum standard any way, the higher classes led by the administration personnel have not shown any *real* reduction in consumption: one is reminded of Tony Lumpkin's lines:

> "When Methodist preachers come down,
>
> Apreaching that drinking is sinful,
>
> I'll wager the rascals a crown
>
> They always preach best with a skinful."

But for a short raising of the bank rate in England from 2 to 4 in September, 1939, it has been at 2 per cent throughout. In India, it has been at 3 per cent uniformly. In the U.S.A. it has been at 1. In Germany, it has declined to $3\frac{1}{2}$ per cent. In Germany, there is powerful propaganda against the hoarding of money: "money hoarders are war criminals." The different kinds of saving leading to reduction in purchasing power available for the purchase of consumption goods have been already explained. The *Economist* very appropriately commented at the time of the passing of the Prices of Goods Bill in Britain:

> "The Prices of Goods Bill will be politically successful and economically sound only if it is regarded as one of the minor aspects of economic policy. If either by design or by negligence, the present war is financed by inflationary means, neither this Bill nor any subsequent more stringent measure will succeed in keeping prices from rising. Indeed, in those circumstances, it would not even be desirable to

prevent a rise in prices. For, if the Government is not going to raise the resources it needs either by taxation or by the borrowing of genuine savings, then a rise in prices is the only way in which the consumption of the people can be reduced to the extent necessary to set labour, material and capital equipment free for the purposes of war."

Thus, the main features of monetary policy have been these:

1. The quanity of currency is more or less at a stable level.
2. The money market is easy.
3. Exchange control was once an experiment in Germany, but is now an established fact—even in India.
4. Private capital issues are done away with for the 'duration.'
5. The only 'free' items in the market are (a) real estate and (b) shares representing different kinds of property. In the latter case, all transfers of shares in Germany are to be registered after the outbreak of the war, and if and when a sale is proposed, the offer must be first made to the Reichsbank. Industry is "concentrated" and money is "vagrant."
6. Maximum amount of money is diverted from consumption to saving (and thus lending to Government) for war finance.

V. *War Finance*

Many of the measures relating to war finance have been referred to in earlier sections. It may be stated here that war expenditure in the present war has risen in direct proportion to the success of science in intensifying and expediting destruction. British war expenditure rose from £3884 million in 1940-41 to £4620 million in the calendar year 1941, and to £5286 million in 1941-43. The estimated deficit for 1942-43 in Britain is £2659 million. The first four years of war have cost Britain about £14,000 million, 40 per cent. of which was raised by taxation. In 1941-42, the tax receipts in Britain were £1961 million: they are estimated at £2908 million in 1943-44.

The ratio between national income and war expenditure put at 50 per cent 'equitable,' and 70 per cent 'physi-

cal or psychological' limit, but with the rate of increase in national income going down, the margin from past savings also thinning out and the daily war expenditure by the belligerents steeply rising month after month, it is not clear how the war will be financed if it should prolong to 1945. On the United Nations' side, there are the great potentialities of the U.S.A. and the lease-lend canal, but how long, how far and how full this canal will flow is a question deserving special inquiry. On the German side, hope lies in the New European Order which is the civilised nomenclature for Europe being however unwillingly bled for Germany. In India, a percentage fixation of war expenditure in relation to national income should lead to ridiculous results as the margin for any kind of saving or diversion from civilian consumption is incomparably smaller than in Germany, the U.S.A. or Britain.

The important highlights of war finance may now be summed up:

1. There is a considerable common ground between war expenditure and civilian consumption, comprising the heavy subsidising of essential foodstuffs by Government, family allowances for service men, billeting allowances, and feeding, clothing and housing the forces (land, sea and air).

2. Reduction in civilian consumption. Already it has been mentioned that during the calendar year 1941, consumption was reduced in Britain by about £600 million at pre-war prices, compared to 1938.

3. High income and wage taxation, and high social insurance contributions as also "skimming" off of excess profits.

4. "Li-loans" from collective savings.

5. Tax-free 'iron' savings (already explained in an earlier section).

6. 'Blocked investment account' whereby 50 per cent of depreciation allowance is blocked for the duration, with the concession that purchase of machinery *after the war* out of this blocked account will be exempted from capital taxation, in Germany.

7. Limitation of dividends. The claim is that by the accumulation of undistributed profits, the shareholder is becoming a rentier; in Germany. The 'gap' between shares and debentures has disappeared with the limitation of dividends and 'share-stops' as in Vienna in October, 1940.

There is a clamour for capital increase, that is, watering of shares. In June and July, 1941, 72 companies in Germany increased their nominal capital from £40 to £70 million.

8. 'National compensation levy' for subsidising firms closed down for the duration.

9. The levy of price control fees for permits, price-fixing and for granting exemptions.

10. Acquisition of dollar resources by Britain by disposing of British property in the U.S.A. after compulsory purchase by the State of American securities and shares held by British nationals. Britain is securing this way about £1000 million per annum of dollar resources with which she is buying war material from the U.S.A.

11. Free gifts. Canada has made a free gift of £225 million to Britain in 1942-43. The accumulated sterling balances held by India in England may raise a similar issue at a later stage.

12. In the case of Germany, occupation charges of parts of conquered countries is a mentionable source of revenue. In the earlier months, it was 400 million francs a day against Vichy France.

A few suggestions for India are:

1. Allowance of instalment purchases of Government securities (specially war bonds).

2. Raising the insurable age in India. At present it is 45 in Indian companies, but many foreign companies working in India insure up to 65.

3. Governments running life insurance for the public, as in Mysore and Hyderabad (in the latter case, just sanctioned).

4. Governments organising pension schemes for the benefit of the general public in India. In the advanced countries, social insurance is much too forward to allow room for this.

C. The Position in India.

I. *Determining Factors*

Some of the important circumstances that determine the scope for economic control in India may first be cited.

1. The area of the country. Many things that are being done in Britain prove hardly thinkable in India on

account of the distances and the strain on communication and transport facilities on account of war work.

2. The fitness of the people for economic control. It implies a high degree of discipline and public morality. It implies a high level training. Pax Britannica and the spirit of personal liberty so studiously nurtured by British rule in this country has led to national coma.

3. The confidence enjoyed by the Government of India on the one hand of the British Government, and on the other of the Indian people. Policy of the Government of India there is none. They have to carry out orders from the British Cabinet, and thus statements made by the Hon'ble Members of the Viceroy's Council are no better than the King's Address to the British Parliament which is written and read for the King.

4. The kind of administrative machinery. We have been endowed with a number of 'advisory' boards and committees and while the agents of the British Government (including the United Kingdom Commercial Corporation) carry on dictates from Whitehall, these 'advisory' boards and committees yawn and yarn once or twice in the year. We have the Defence Council which is advisory, the Central Civil Supplies Board, the Central Food Advisory Committee, the Price Control Conference, and not less inert, the Economic Consultative Committee.

5. How far war is—by physical distance, and by psychology. Indian 'frontiers' were pushed outward to Singapore (till the Japanese occupation), Egypt and the Middle East, but the war is still out of India.

6. The stakes involved. In Arthur Young's words, "the magic of property" has not been there in the Indian mind, and therefore there is no stirring of imagination of the people. They are shrewd enough to understand that they have not got much to lose either in prestige or in standard of living by vicissitudes of war. The subsidiary system of Wellesley is still continuing intact, and India has to pay the war expenditure as determined by the British Government in the interests of India (as defined by that Government). The Finance Member does not know how much would be allocated as India's share out of the Rs. 1½ crores a day of war expenditure now being incurred by the Government of India. This would largely depend on the definition of the Indian 'frontier.' The United States frontier has been definitely established in

India—at least for the duration. The Finance Member very apologetically remarked in the Central Legislature:

> "Might it not be that on a review of all the circumstances and particularly if they had knowledge of the point of view taken by the other principal party in this matter—His Majesty's Government—all their efforts would be concentrated on endeavouring to maintain the present basis?"

> "The fact is that if the defence forces are manned by Indians and equipped by Indians with the products of Indian industry (and may we add, intended for the *defence of India geographically?*), the incidence of the burden will not be felt."—*Indian Finance.*

7. The available margin for sacrifice and co-ordination. The Indian raiyat has not been exterminated sheerly on account of kindly Nature in India. Otherwise, it is only urban India that is interested in this item.

8. Efficiency of publicity. Many vital facts are not made known to members of the central legislature.

9. How far authorities in India are conversant with economic control technique as practised in Britain, Germany and the U.S.A. Already one specimen has been cited, namely, the different connotations attached to 'price control' in India and in other countries.

10. The touch between administrative practice and academic theory. Academic theory and research there is little in this country, and there is a general atmosphere of awe on the one side and suspicion on the other.

II. *War Benefits*

We may now proceed to catalogue the points on which some benefit has been realised in India in connection with economic control.

1. Exchange control (although for the benefit of Britain at the expense of Indians).

2. Steady bank rate, steady money and securities market.

3. Improvement in foreign debt position. We have paid off our sterling debt but still have ample resources

even to repatriate a considerable portion of British capital invested in this country.

4. Comparatively small deficits at the centre, owing to bigger revenues and infinitely small sociual responsibilities, as compared to other belligerent countries.

5. The attainment of higher financial status both at home and abroad.

III. "*Diseconomic*" *Control in India*

"Uneconomic" is a neutral term, but here in India we have plenty of instances of diseconomies, not merely absence of economies. Some of the cases may now be referred to.

1. Economic stability is prominently absent. First we had a war boom, then shipping difficulties, then prices shot up of certain commodities, specially foodgrains and cloth, there were landslides in the prices of some other raw materials which could not find markets, and we have had the bathos of the Bengal jute mills after the hey-day in the beginning. We are having now the Bengal Tragedy after four years of war, we have begun to think of desirable steps rather in a sleepy way. The *Indian Finance* wrote:

> "We are still in the stage of accomplishing in terms of paper and personnel than of production of the right articles in the right quantities and in the right time."

2. In spite of the groundwork cleared by the Eastern Group Conference and recently by the American Technical Mission, the War Supply Department has managed matters with no thought for the morrow.

3. Recruitment policy. Eighty and odd thousand missing, and 70000 recruits a month—this is the climax of marshalling man-power in this country with 388 million people. Indian recruits are wanted on preparedness for 'overseas' service, and European and Anglo-Indian recruits are invited for service 'in India.'

4. Fallacies and failures of a miscellaneous type. Government themselves raised railway rates, there emanated heavy profits, and then they were compelled to agree to higher wages, and we have not yet seen the last of it. Prices of rice and cloth have soared very high,

entailing great hardship to the poorer classes in the entire country, but the Government have tried to placate discontent by raising the wages of a few urban workers. The villagers are the silent sufferers—the landless agricultural labourers. The groundnut oil lamp is the biggest achievement with regard to substitutes. Convictions of infringement are 'token.'

5. The absence of an enlightened public works policy. "War effort" is being interpreted very narrowly, and attempts like the automobile industry have been thrown cold water on. Railway workshops were commandeered for ordinance factories. Crores were spent on 'black-out's but there have been 'light-up's all round. A.R.P. and evacuee programmes change from week to week, thus insuring maximum desertion when the trouble actually comes.

6. The holding up of lifeless and depreciating sterling assts in large quantities in England without utilising it for productive purposes. While Britain is making the maximum possible use of dollar resources, for war and post-war purposes, the plethora of Indian sterling balances is being advised by British financial journals

> "to wait and utilise it for necessary purchases from Britain after the war."

The *Indian Finance* is solitary in suggesting its use for repatriating British capital invested in Indian industry. This would enable India to get proprietory rights on her own assets, and also release sterling funds from which the British Government could further borrow. On the other hand, the question is being seriously asked:

"Will India's capital come forward to purchase such stocks?"

The plea for India's sterling assets to wait till after the war for making purchases of capital goods in Britain is inadmissible on the following grounds:

(a) The entire cost structure in Britain has already gone very high and India could not purchase capital goods from Britain on competitive terms even long after the war.

(b) Home problems there would be in plenty for Britain to face for several years after the war, and it would certainly take a long time

before Britain could manage to register orders and make deliveries to India.

(c) Sterling is fast depreciating in terms of the dollar in the 'free' market, and by the time Britain comes back to normal, the real value of India's sterling holdings must diminish—sheerly by efflux of time.

(d) It is doubtful how far Britain will command the raw material, labour and plant necessary for producing the large stocks of capital goods India might need—during and after the war.

(e) British investments in India are surely much more remunerative than sterling securities held in England for India.

7. Huge sums are being spent on current maintenance of Indian armies abroad, but very little improvement is being realised with regard to capital items of defence. The Indian Air Force, the Navy, ship-building and her engineering factories are in spite of claimed percentages of improvement (multiples of a zero are infinitely zeros!) not worth mention. The Hindustan Aircrafts is the only oasis in the desert. And American motors and planes and armies are swelling up in India, not to speak of the ship-loads of Italian prisoners of war who are on Indian standards, prisoners of State. What a negation of the principle of priority!

Thus in India, economic control to be useful has got to be thoroughly overhauled after considerable 'purge' of presentiments and prejudices. This could be done only by a truly national Government.

WAR-TIME CONTROL OF FOREIGN EXCHANGES IN INDIA

BY

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"In hardly any sphere of activity has intervention been adopted so wholeheartedly as in the matter of foreign exchanges".[1] This statement made in respect of pre-war conditions is more true today in the conditions created by the war. The exigencies of war have widened the network of restrictions and tightened the control of Governments over foreign exchanges. The case of India is in one respect different from that of other countries. Whereas before the war, most countries had instituted some form of exchange control to prevent either a flight of capital (as in Germany) or fluctuations in exchange caused by movements of refugee capital or 'hot money' (as in England by means of the Exchange Equalisation Account), India had taken no such step. Foreign exchange control in India was introduced only on the outbreak of the war and is a product of the war.

In war, control of foreign exchanges is resorted to (1) as a weapon of economic warfare and (2) for husbanding the resources of foreign exchange for essential purchases from abroad. The first has its aim in crippling the resources which might become available for the enemy for prosecuting the war by preventing citizens of the home country from having any dealings with citizens of the enemy country. The second aims at conserving the resources of foreign exchange and making the maximum use of it because a country at war will find on the one hand its resources dwindling on account of the loss of foreign markets and on the other its need for foreign exchange increasing for making purchases from abroad.

Mechanism of exchange control in India.

1. *Machinery of Control.*—Part XIV of the Defence of India Rules issued under the Defence of India Act

[1] Paul Einsig: "Exchange Control," p. 2.

1939, provides for the control of all dealings in foreign exchange, gold and securities. The Reserve Bank of India is authorised to administer the control and it has set up a special department, the Exchange Control Department, for putting into force the scheme of control. The Reserve Bank has issued licenses to deal in foreign exchange to all recognised exchange banks and to other scheduled banks which had in the past dealt in foreign exchange. These authorized dealers are to carry out the Reserve Bank's directions regarding the purchase and sale of foreign exchange. The public are prohibited to acquire any foreign exchange either directly or indirectly and deal in foreign exchange or gold except through the authorized dealers.

2. *Scheme of Control.*—All countries in the British Empire except Canada, Newfoundland, the mandated territories and Egypt are included in one currency area called the Sterling area. Between countries belonging to the sterling area, remittances are allowed free while strict control is exercised over remittances from the sterling area to any country outside it. The sterling area has been widened by the inclusion of Belgian Congo, the Free French Colonies, Iceland, Faroe Islands, Syria Lebanon and Iraq in 1941.

Control of foreign exchanges in India is mainly directed to conserving foreign exchange by limiting remittances except for essential purposes. Remittances are divided into five categories: (i) payment for imports, (ii) petty private remittances, (iii) travelling expenses, (iv) other trade purposes, (e.g., freight, profits, royalties etc.) and (v) capital remittances. While capital remittances are severely restricted, general permission is given to authorized dealers in foreign exchange to make sales of foreign currency in payment of imports. Facilities for remittances of a private nature, including travelling expenses and for other trade purposes were severely curtailed as the strain on the foreign exchange became heavier as the war developed.

3. *Import Control.*—To restrict the import of non-essential commodities and thus to conserve foreign exchange, the Government of India in May 1940 introduced a system of import control licensing the import of certain commodities from certain countries. The Reserve Bank issued corresponding instructions to its authorised dealers,

that no sales of foreign exchange against imports that were subject to license, were to be allowed unless the importer had received an import license from Government. The list of articles affected by restrictions originally covered 68 items among which the most important were sugar, raw cotton, motor vehicles and silk. The commodities selected were either luxury goods or unnecessary articles, the consumption of which could be kept within limits. The cessation of supplies from the continent of Europe forced India to turn more and more to the United States for the purchase of not only heavy goods such as machinery and steel, but also for a number of miscellaneous articles. The list of commodities the imports of which were restricted had to be extended to cover all articles from all foreign countries with the exception of certain goods from Canada. The object of the control was not only to husband dollar resources but to conserve shipping space and productive capacity in the United States, particularly after the passage of Lease Lend legislation.

In July 1940, the Government of India refused permission for any remittances from India for the support or maintenance of individuals who wished to go to non-Empire countries for special convenience. Travel by non-Empire vessels involving expenditure of foreign exchange was forbidden unless for certain approved reasons. In October 1941 the Government imposed restrictions on the remittance of profit by firms and companies operating in India. The basis of remittance was fixed as a proportion of the average profit in pre-war years or a proportion of current profit.

Acquisition of dollar balances and securities.

In December 1940, the Government of India took over the U.S. dollar holdings of all residents in British India and the rupee equivalent of their dollar holdings was paid out by the Reserve Bank. Similarly in 1941, the Government took over the holdings of residents in India of certain U.S. Dollar Securities.

The Exchange Control Department has given general permission for local dealings in gold, but exports of gold can only be made under license. Licenses for shipments of gold to United States are only granted to authorized dealers in foreign exchange povided they undertake to surrender the dollar proceeds of the gold to the Reserve Bank.

Imports of gold into India are also licensed and freely permitted, provided no expenditure of United States dollars is entailed thereby. With regard to securities, the Exchange Control Department issues licenses for the export of rupee, sterling or other Empire currency securities to other parts of the Empire. The exports of foreign securities for sale are duly allowed provided the foreign exchange proceeds are surrendered to the foreign agents of a bank in India. A limit has been imposed by the Reserve Bank up to which persons could take jewellery and cash out of India. Any person wishing to take out money in excess of the prescribed limit has to apply to the Exchange control Department for a License.

Export Control.—The objects of. export control are twofold: (i) to see that foreign exchange proceeds are returned to India and not retained abroad and (ii) to secure the maximum exchange value of exports by financing them in certain specified ways. With the development of a 'free' market in sterling in the United States where sterling was often quoted at a discount compared to the controlled rate, it became more advantageous to sell Empire exports to the United States on a sterling basis than it was to sell the goods on a foreign currency basis as the foreign importer was able to buy his sterling cheaply to pay for his imports in the 'free' sterling market. Exports from India to the United States consequently began to be financed through the medium of sterling bills on London. To prevent the loss of exchange caused by finance of Empire exports in 'free' sterling' the Bank of England introduced in March 1940 an export control system covering certain commodities whereby their export to 'hard currency' countries was not allowed unless the exporter produced satisfactory evidence that he was receiving 'hard currency' and not 'free' sterling. ('Hard currencies' are those which are based on gold. or are linked to currencies which are based on gold, e.g. U.S.A. dollars and Swiss francs.) Similar restrictions were imposed by other Empire Control Boards. In India, the commodities affected were jute and rubber and shipments of jute and rubber to any of the 'hard currency' countries were only allowed provided the full 'hard currency' proceeds of the goods were received. The drawing of sterling bills which could be paid in free sterling was prohibited. Sterling bills on London were still permitted provided they were drawn under let-

ters of credit registered with the Bank of England and contained a clause to the effect that the sterling required to meet the bills at maturity was obtained by the sale of U.S.A. dollars to the London Control. Finance of exports in rupees was also allowed provided the rupees were furnished by the foreign importer and were not remitted through the 'free' sterling market. In 1940 the export control scheme was extended to cover all commodities shipped to U.S.A. and Switzerland. In June 1941 it was extended to Canada, Newfoundland and to all countries with which the United Kingdom had made special payments agreements with a view to limiting transactions in 'free' sterling. The result has been that the financing of exports through sterling obtained in the 'free' market has been virtually put an end to and the full 'hard currency' proceeds of exports have been secured.

Conclusion.—The exchange control regulations issued by the Reserve Bank of India are on the lines of those enforced in the United Kingdom and are mainly directed to conserving foreign exchange as for as possible. As a member of the Sterling area, India has to surrender any surplus foreign currency proceeds to the Bank of England in exchange for sterling funds in London. The sterling balances in London are invested in British Government obligations, principally treasury bills. In this way the United Kingdom Government obtains short term credits as well as foreign currencies for its 'external war finance'. Dollar balances instead of being surrendered to the United Kingdom in exchange for sterling could well have been utilised in the initial stages of the war for the importation of machinery, tools, etc., from the United States and thus accelerated the pace of industrialization in India.

INDUSTRIAL DISPUTES DURING WAR TIME AND THEIR SETTLEMENT

BY

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If industrial peace, during war time, is to be maintained, we should have a right approach to the problem, avoiding hasty judgments and half-hearted measures. At no other time has the need of keeping the labour force contented been more strongly felt than today. Apart from the value of harmonious industrial relations as such, there is the question, now-a-days, of continuing war production without any let or hindrance. No doubt every possible attempt should be made to prevent strikes and settle promptly industrial disputes. But this is possible only when the attitude of ascribing strikes to the tactics of the "undesirable" and "corruptible" labour-leaders is given up. Similarly a mere policy of declaring strikes illegal cannot carry us far. Causes, both deep-rooted and precipitating, responsible for labour disputes should be analysed and the Government should be prepared to ensure a fair deal to labour in war-time. Any delay in the adoption of measures for the betterment of worker's lot is bound to create suspicion and breed discontent in them.

The following table gives figures regarding disputes in India from 1939 to 1941.

Year.	No. of disputes.	No. of workers involved.	Days Lost.
1939	406	409,000	4,993,000
1940	322	453,000	7,577,000
1941	359	291,000	3,31,000

A glance at the above table shows that in the year 1941 there was remarkable improvement both in regard to the number of workers involved and the days lost. Besides the number of working days lost in disputes has been the lowest recorded during recent years in which the volume of employment had been satisfactory.

The following table gives figures regarding industrial

disputes in India from the first quarter of 1929 to the fourth quarter of 1941.

For Quarter Ending.	1939 No. of dis-putes	1939 No. of workers involved	1939 Days lost	1940 No. of dis-putes	1940 No. of workers involved	1940 Days lost	1941 No. of dis-putes	1941 No. of workers involved	1941 Days lost
31st March	105	88,370	803,251	128	273,990	4,003016	71	25,945	185,506
30th June	109	94,804	1579,718	101	268,550	2,474263	121	64,457	1,225,240
30th Septr.	112	98,229	1785,860	49	70,976	856,494	78	108,820	1,184,919
31st Decr.	110	168,865	823,966	62	27,967	243,508	106	102,825	734,838

Most of the industrial disputes relate to demands for increase in wages. During the textile-Strike in Cawnpore in July, 1941, though a long list of twenty-three demands was presented by the Mazdoor Sabha, the main grievance of labour centred round wages. Similarly a large number of disputes occurring in Bombay may be attributed to the same cause. With the day to day rise of commodity prices and the consequential increase in cost of living, it is but natural for the workers to press their legitimate claims, higher wages and adoption of other forms of relief.

The following table shows the cost of living index numbers for some of the important centres :—

Year and month.	Bombay Base : Year ending June 1924 = 100	Ahmedabad Base : Year ending July 1937 = 100	Cawnpore Base : Year ending August 1939 = 100	Madras Base : Year ending June 1936 = 100
August 39	105	69	100	98
Septr. 39	106	76	105	103
Decr. 39	113	84	112	108
March, 40	110	78	109	105
June, 40	111	80	108	107
Septr. 40	112	79	113	108
Decr. 40	115	79	111	110
March, 41	119	79	106	108
June, 41	122	83	114	108
Septr. 41	129	92	133	109
Decr. 41	129	99	151	115
March, 42	137	96	150	121
June, 42	152	111	175	115
July, 42	168	117	190	128
August 42	168	123	203	133
Septr. 42	170	117	...	137
Octr. 42	172	121	...	146
Novr. 42	178	137	...	152
Decr. 42	188	...	...	156

No doubt there has been an increase in wages to meet the increased cost of living. Taking the year 1941, it is

calculated that in 186 out of a total of 359 strikes, the workmen were successful in getting some concessions. But the movement in wages has been unplanned and has varied in different centres and in different industries. Industries engaged in war production have increased the wages. The Bombay Millowners' Association has accepted the principle of sliding scale of dearness allowance to cover higher cost of living. When the index number was 124, the scale was Rs 4-8-0 and any subsequent rise in index numbers was to be followed by an increase in dearness allowance so that in case of the index number rising to 143 the rate was to be Rs. 9. In August 1942 the lower limit of Rs. 14 for index No.164 and the upper limit of Rs.18-8-0 for index No. 183 was adopted. Further, as the war demand for jute and woollen manufactures has created semi boom conditions the workers have begun demanding share in the profits. And there is no wonder that during 1941, the strikes in the cotton and jute industries account for 44 per cent. of the total number, 70.3 per cent. of the workers involved and 66 per cent. of the working days lost. The Millowners' of Bombay have granted their employees a war bonus of 12½ per cent. of the total earnings during 1941. Other textiles centres are also following the lead given by Bombay. Public utility concerns like railways have given concessions to their workmen both to offer relief to their employees and to guarantee the maintenance of communications. In August 1942, the Government sanctioned an aggregate dearness allowance of Rs. 5½ crores and this had the consent of the All India Railwaymen's Federation.

Whatever be the type of machinery for the settlement of industrial disputes, it should aim at minimising the chances of workers to have facile recourse to strikes. This involves two things. Firstly, the right to strike should be fully recognised. Secondly, strikes could be declared only under certain conditions, e.g., existence of a real grievance, declaration of strike only after the failure of alternative means, the extent of chances of success, etc. The above conditions aim at having recourse to strike as the last alternative, relying more and more on conciliatory methods. But even while adopting the latter device, voluntary action is to be preferred to compulsory arbitration. When at a conference of labour leaders, Roosevelt expressed that "the voluntary action of labour in yielding

the right to strike was a more satisfactory answer to the problem of production and of national unity than restrictive enactments by the congress'', he demonstrated his faith in voluntary conciliatory methods. Smiths' Labour Bill passed by the House of Representatives is an emergency legislation and is not to be invoked ordinarily. The same is the case with the National Arbitration Tribunal in the United Kingdom, which settles disputes only after the voluntary efforts have failed.

The attempts made for settlement of labour disputes in India can be classified under two heads :—(1) Preparatory work through committees and conferences, (2) Legislation.

The Bihar Labour Enquiry Committee has recommended the enforcement of compulsory conciliation before a strike or lockout is resorted to, the limitation of conciliation proceedings to a fortnight and the creation of an industrial court. The Bombay Textile Labour Enquiry committee is for the establishment of a Trade Board (for the Cotton textile industry of the province of Bombay) whose powers and constitution should be similar to those of the British Trade Board established under the Trade Boards Act of 1909 and 1918.

Apart from the work of the above committees, the inauguration of annual labour conferences is a due recognition of the importance of labour problems. The first labour conference, 1940, is significant in as much as it emphasized the necessity of co-ordinated Labour Legislation and recommended the amendment of the Trade Disputes Act of 1929. The object of the latter measure is to put an end to wide divergences existing in different provinces in regard to the machinery for the settlement of Labour Disputes.

The memorandum prepared by the Govt. of India and intended to serve as the basis for discussion suggested that, in all cases, before a strike or lockout is commenced, the party intending such an action should give 14 days notice to the other party, delivering at the same time a copy of it to the Labour Commissioner. The Labour Commissioner should endeavour at a peaceful settlement. In case of break down of attempts at conciliation, the parties, if they desire so, could start the strike or lockout at the end of the fortnight. It was also suggested that "if a dispute is of sufficient importance, the Government concerned will have time during the fortnight, if it is necessary, to appoint a Board of conciliation or a court of

Enquiry" and in that case "the strike or lockout should not be started for two months from the date of its appointment or till its conclusions are published whichever is earlier."

The workers' view was that as the Trade Disputes Act of 1929 was not given a fair trial, there was no justification for the proposed new legislation. Besides, they thought that the very controversial nature of the bill made it unsuitable for being discussed and enacted during wartime. The employers thought it desirable to ascertain by secret ballot the opinion of workers on a question of strike and were of opinion that a strike should not be legal unless, say, more than 51 per pent. of the workers concerned voted for it. The conference of Labour Ministers was in favour of the adoption of procedure laid down in the memorandum.

Subsequent to the discussions at the second labour conference, the Government of Bombay has amended in July 1941 the Bombay Industrial Disputes Act of 1938. "The Amended Act empowers the Provincial Government to enforce compulsory arbitration in disputes" and refer disputes to the Industrial Court at any stage, *i.e.*, either before or after conciliation wherever there are chances of the disputes leading to serious dislocation of industry or breach of public peace or hardship to Labour or to a large section of the community. Further, when the Provincial Government refers a dispute to arbitration, "it will be illegal for a strike or lockout to be commenced or continued." It may be mentioned here that a similar bill for compulsory arbitration of industrial disputes is being considered by the Government of Madras.

The tendency to replace voluntary conciliation by compulsory arbitration is not a happy change. So long as the awards of the arbitrator are just and favourable to workmen they will be accepted. But the moment the enforcement of unpopular award is attempted against the inclinations of a considerable body of labour, trouble will arise. The penal clauses of the Act will not deter the workers from embarking on a strike. Hence, instead of relying on external machinery, attempts to build up voluntary negotiating machinery will be more useful. Establishment of workshop committees and industrial councils can prove effective in composing the differences between the employee and the employer provided the members con-

stituting the above body work in the right spirit and are ready, whenever necessary, to adopt a compromising attitude. Further the appointment of Labour Officer to safeguard the interests of the workers and the timely services of conciliation officers can go a long way towards the promotion of industrial harmony.

As for the Central Government, they have issued, under the Defence of India Act, emergency legislation, the main object being promotion of lightening or sudden strikes. It empowers them to prohibit a strike or lockout and "to refer or authorize the Provincial Government to refer any trade disputes for conciliation or adjudication". Further the employers are required to maintain the status-quo of employment. Even though the critical times might warrant the above emergency legislation, there is always a danger of its misuse and great care should be taken to avoid its mishandling.

But we may be hopeful of the future now that the principle of joint deliberation has been duly recognised by calling the first Tripartite conference in August 1942. The previous labour conferences were defective in as much as they consisted merely of representatives of the central government, provincial government, and some of the Indian states' governments. No doubt the labour member of the Government of India used to meet separately the representatives of capital and labour. But such a method could not command the advantages of joint meeting and mutual discussion. The above defect was removed by calling the conference in August 1942, on a Tripartite basis with representatives of Government, employers and workmen meeting jointly. One of the objects of the conferences has been to lay down a proceedure for the settlement of industrial disputes. Such a task will be greatly facilitated by the other two objects of the conference e.g., securing uniformity in labour legislation and discussing matters of all India importance as between labour and capital. Further, the conference has set up a standing committee consisting of representatives of the Government of India, provinces, states, employers and employees. When controversies regarding methods of representation and matters of procedure are settled, it may be expected that the above committee will act as a machinery permanently available for the speedy settlement of industrial disputes and formulation of a planned labour policy.

CONTROL OF PRICES

BY

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One of the most fundamental problems of war economy is to control the rising tide of prices. In order to prevent a considerable rise in prices a number of measures have to be adopted by way of controlling and fixing maximum prices, limitation of supplies, import and export control, licensing, subsidies and certain prohibitions. As there are number of misconceptions in the public mind regarding the desirability and possibilities of successful price control, I shall discuss these at some length. First as to the desirability of price control. In order to fully appreciate the intricacies of the problem and to grasp its full implications, it is essential that we should consider this problem first in a peace economy, and then in a war economy.

In a capitalistic system of economy, a system on which the economies of leading democratic states like England and the U.S.A. are based, it is far from desirable to make any attempt to control prices during peace time. The very system of Capitalistic Economy is based on freedom of enterprise and the free choice of the consumers, and the structure of this system is regulated by the forces of supply and demand. When demand for a commodity increases, it is a signal and an invitation to the producers that enough is not being produced to meet the demand. The incentive of high price stimulates production. On the other hand, a fall in prices is an indication and a warning to the producers that at that price a commodity is no longer being wanted, and they must take steps to discourage its production. Normally it is just through high prices and high profits that a shortage of anything corrects itself. As Professor Pigou remarks, "the prospect of exceptional gain directs free resources into the industry which makes the thing that is short. Cut of this prospect, and that increase of supply which the interest of the na-

tional dividend demand, will be checked, and checked more severely, the greater is the cut from the "natural" price." Therefore, it is obvious, that any scheme for price control must take account of these basic facts. The remedy should not be worse than the disease. It is with this idea in view that number of experts have been slow to advise the control of prices except in circumstances of a most urgent emergency. I have no hesitation in saying that a war certainly is an important emergency and circumstances do arise when the forces of supply and demand no longer function smoothly and it does become essential in the interest of the nation to regulate the machinery of prices. So we have reached the conclusion that in war economy it is desirable to control prices, however, undesirable it may be in peace-economy. This brings us to the second question, is it possible to control prices? This is a rather ticklish question to answer. I think it will be more easily understood if we begin to tackle it rather indirectly. One may ask why is it not possible to control prices? The answer is that in spite of war and war economy, the basic structure of the system still remains capitalistic and peace time forces operate in pre-ponderating portion of our economy with a resultant nor-war psychology of people at large. For instance we are slow to change our habits. We still like to have what we used to have and it is not without a struggle that we are reluctantly prepared to adjust ourselves to the changed circumstances. The technique of price control is still in its infancy. All schemes of price control in the nature of things have to be managed by government officers who do not possess much experience of trade and business. The affected interests are likely to oppose measures of control and create all possible obstacles; hence all conceivable methods of evasion are restored to. Last but not least, the public for the benefit of whom all this machinery is set up, seldom cooperate whole-heartedly with the controlling authorities. The controlling authorities have to face a number of difficulties of rather technical nature in addition to those which I have just mentioned. One difficulty is how to properly define the controlled commodities. The same name often covers a great variety of different qualities of an article or commodity which it may be extremely difficult to differentiate in a formal schedule. When this condition prevails, it is impossible to exercise control. For

instance the word rice in this country does not convey any fixed kind of rice. There are not only scores of different types of rice in the country, but there are number of local varieties known by different names. Even when the difficulties of proper definition are overcome, at least from the mere fact that grades are so numerous, it becomes difficult indeed to fix and then control the prices, thus fixed. Again it is rather difficult to control the prices of those goods which are subject to wide seasonal fluctuations. Again a number of difficulties have to be faced in fixing the prices of those goods whose production has to pass through several stages; for instance, from cotton to cloth. The control of price of cotton alone is not likely to affect by itself the price of cotton-cloth. This we are realising to our dismay, for in spite of fall in the price of cotton, the price of cotton cloth has recently risen tremendously. I hope I have not bored you with too many examples illustrating the difficulties of price control. It is absolutely necessary to bear these difficulties in mind before condemning any government for its inability to control prices to the satisfaction of various classes of consumers. Again, if we take for granted that all these difficulties are overcome, and I do maintain that these are difficulties only of technique, which can be overcome by experience, and in many cases certainly have been overcome. Everything said and done, these are not the fundamental difficulties of price control. The difficulties that are of a serious nature and to overcome which much more than mere control is necessary, are the difficulties which arise owing to the limitation of supplies. For instance, India used to import a very large part of its requirements of manufactured goods from other countries. Owing to war the imports from enemy countries have been absolutely stopped and the supply from the Empire and other countries has been greatly reduced owing to causes which are beyond our control. So it is quite evident that, it is not possible to control the prices of those commodities over the supply of which we have no control. Unfortunately this applies to a very large number of our requirements which we usually used to import before the war. In such cases, however, we can manage to impose restriction on the excessive exploitation of the consumers by controlling profits and not prices. When a country has not any control over the supplies, all that a controlling authority

can do is to control the profit and not the prices. The system works like this. The controlling authority through trade associations and its appraising staff makes a thorough enquiry about costs and profits earned for various commodities and articles the price of which it is designed to supervise. Usually in each trade the rate of profit earned before the war is considered as a basic rate of profit. Then it checks the invoice price of imported articles and the "Mandi" prices of local produce, adds all costs and the maximum profit which it allows all traders to charge, which is generally the same as the basic profit, and then calculates the price. This in the opinion of the controlling authority is the 'fair price.' Generally the controlling authorities keep these calculated prices confidential and watch the market prices. These calculated prices are usually arrived in consultation with the traders and they are privately told not to charge higher prices than the calculated prices. In some cases these fair prices are publicly announced. If the market price does not exceed this calculated price, no action is taken. But if the prices prevalent in the market exceed the calculated prices, traders are warned. If they fail to profit by warning, maximum prices are fixed, the evasion of which is made a punishable offence.

The system of price control which I have just mentioned and which is rather a profit control than a system of price control, can only succeed if there are effective trade associations to co-operate with the price control authorities.

I have mentioned some of our limitation in effectively controlling the prices of those commodities in the production of which a country is deficient and has to depend on imports for its major supplies. Fixing a maximum price is rather a mild method of controlling prices and if the supply is rather limited and the controlling authority wants to make an effective use of it, it has to adopt more drastic methods by which mere well-to-do consumers are prevented from raising its price by their willingness to pay more and more and thus prevent the less well-to-do consumers from getting it. If the article is of such a nature that in the interest of the community, it is necessary that a reasonable supply has to be made available to the less-well-to-do consumers, then it is essential to ration that commodity or article. In England during the last war as well as in the present war, number of food articles were rationed.

The only thing rationed all over India is petrol. In Hyderabad wheat has also been rationed. The basic idea underlying the rationing of supplies is the equality of sacrifice in times of national emergency. The rationing of essential commodities to the well-to-do classes is justified on the grounds that sufficient supplies at reasonable prices shall be available for the poor also. If the Government takes control of the entire supplies and rations the commodity, it cannot only control the internal price but can also see to its effective distribution in the national interest. The system of rationing is a step still further in the control machinery and is generally taken to complement the system of maximum prices so as to prevent that system from leading to chaos in distribution. The mere fixing of maximum prices without rationing the commodities the supply of which is limited, put the rich people at an advantage over the poor people, since they can command the greater part of supplies without undergoing any serious sacrifice, and deprive the poor people. The necessity of rationing those commodities which are needed by the poor and rich alike—such as foodstuffs in an importing country is all the more necessary in the national interest. In such cases the system of fixing maximum prices is of little value to poor consumer, if they cannot get their adequate share. In order to give adequate and reasonable share to all the members of the community, it becomes essential to introduce rationing. The rationing authority should aim at minimum aggregate sacrifice. By minimum sacrifice I mean that the rations should be allotted in such a way that the last unit of commodity permitted to any purchaser shall carry about the same satisfaction as the last permitted to any other. In simple words in allotting rations the rationing authority should see that rations are based on need and not on some artificial standard such as income, etc.

State Regulation of Supplies:

A necessary corollary of controd of prices is the control of distribution. This becomes necessary to prevent private persons from demanding supplies which the Government needs for war purposes. In a free economy, the use of the commodities is determined by their prices. But when prices in competitive industries are artificially reduced, below the level that they naturally tend to assume

the ordinary market influences regulating the distribution of commodities between different purchasers are thrown out of gear. In such a case the demand may far exceed the supply and the supply may not be put to the most urgent uses.

Again one and the same article can be put to several uses and during a war it should be put first only to those uses which are important from the point of view of war requirements. In such cases the simplest method is to prohibit the use of supplies to less urgent requirements. According to Professor Pigou this may be done in number of ways, for example:

1. The imposition of Treasury restrictions upon the investment of new capital abroad and, in a less degree, in a civilian home industries.
2. Restrictions on building new houses, especially on those which require steel.
3. The reduction of railway service for all forms of civilians, as distinguishing from military use.
4. The prohibition of the use of petrol for pleasure.
5. The withdrawal of materials, etc., from the less important railways and light railways to others of greater national importance.
6. The regulation and the control of road transport generally.
7. The prohibition of the use of paper for newspaper, etc.
8. The prohibition of timber for packing various articles in wooden cases and crates.
9. The prohibition of the use of electricity for lighting shop-fronts, and the order restricting the hours during which hotel and restaurant dining-rooms might use artificial light or theatres might remain open.

This method is entirely negative; the least urgent uses are ruled out, either by general order, or by making a licence—refused to the least urgent uses—a condition of action.

Restrictions on Export and Import:

The numerous cases of price control which I have so far examined were those in which the country controlling prices depended on external supplies. Now we have to see how the prices of these articles can be controlled which are produced within the country. Apparently there does not seem any sense in controlling the price of articles a sufficient supply of which is available in the country. Take for instance wheat. We generally produce enough wheat in India for our requirements. Yet wheat is one of the commodities, the price of which has been fixed on all India bases. As a matter of fact, except matches, this is the only commodity the price of which has been controlled on all India bases. The reason for fixing a maximum price in such a case is to prevent the producers or traders to exploit the situation, and to stop them from charging high prices by cornering the markets.

In a case like this the Government can succeed in either controlling or fixing the maximum price. In such a case it would be necessary to prohibit the export of such a produce or to allow export under a licence so that exports are regulated. If all dealers in wheat do not observe the conditions of sale, Government can regulate its sale by authorising only those dealers who take a licence from the Government and are prepared to abide by the conditions imposed by the Government. Or as a last resort the Government should undertake to purchase big stocks and release those as and when needed. If a Government fixes a maximum price it should see that it is enforced. A regular staff of supervisors and inspectors is necessary to see that the maximum price is fully enforced. Because if there are large evasions it has a very demoralising effect. No efforts should be spared to control the 'black market' and the disappearing of commodities underground.

I am personally one of those who believe that the Government should be slow in tempering with the usual trade channels, but I also firmly believe that once on grounds of national welfare and public interest a case for government intervention is established, and in a war economy the case for government intervention is very strong indeed, in that case the Government should see that the job is done thoroughly, efficiently and last but not least

whole-heartedly. Otherwise the remedy is likely to become worse than the disease. Now let us examine some of the implication of Government intervention, and their likely effect on producers.

Government Intervention and Check to Production:

We have admitted that in war economy it is in the national interest that the Government should try to check the rising tide of prices. But any attempt at fixing maximum prices is likely to fail if the price is fixed below its natural level. In the last Great War the British Government endeavoured to fix prices at levels that would not seriously reduce the production of the commodities subject to control below what it would have been in a market not subject to price regulation. One may pertinently ask the need for fixing prices by the Government if these are to be same as would be determined if there was no control. The main idea underlying the Government action was that check of price should not discourage production. The producers who realised heavy profits due to this policy were subjected to "Excess Profits Tax." This step of course is only possible for these commodities and articles which are needed by well-to-do classes and can afford to pay higher prices. For necessaries of life such a policy cannot be followed. But unfortunately the method of allowing a wide margin in the maximum price fixed upon is not, however, the only method by which it is possible to prevent production being substantially checked by price control. Professor Pigou says, "that an alternative plan is to couple a comparatively low maximum price with a grant of bounty. Such a bounty may either be given on the whole output or confined to that part of it which is produced with greatest difficulty. For example a maximum price of wheat, calculated to yield normal profits on some given estimated output might be established, and at the same time it might be provided that farmers should receive a bonus on any addition to the wheat crop above their previous output, or to get over the difficulty of harvest variations on any addition to their acreage under wheat." Before concluding this paper I would like to make one point clear and the point is this, that whatever control measures any Government may adopt, in a long war, it is impossible to prevent some rise in prices as compared with the prices prevailing before the war. Number of articles are

imported from abroad, their prices are bound to rise if for no other reason but simply due to the fact that owing to shortage of shipping, freight rates are bound to increase, and there is bound to be a heavy increase in insurance charges. Again in the production of those commodities where a good deal of labour is used, the prices are bound to increase owing to shortage of labour. More and more wages have to be paid to labourers, as most of the able-bodied men are engaged in war work. Thus the utmost that the Government control can do is to restrict the rise of prices, it cannot hope to prevent an upward movement in a number of prices, and such upward movements are likely to become more marked, the longer the war lasts.

PRICE CONTROL IN THE U. P.

BY

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The single large commodity entering the market and therefore determining the general price level is grain. Its importance, firstly, is that in the aggregate it is the largest single source of national income. Secondly, it is a commodity consumed by everyone of the 400 millions in the country so that on one hand its price touches the country generally and fundamentally and on the other its reactions on the popular psychology gather with tidal force drawn from apprehensions closest to life. Thirdly, forming as it does the largest single item of expenditure in the budget of productive workers, every increase in its price travels the whole length of the productive activities of the country. In the price of grain, therefore, must be found the bed level on which the superstructure of price increase rests. Historically, the present price crescendo began from shortage of grain and has continued sympathetically. To unravel, therefore, the economics of food supply is to the largest extent to know how to conquer rising prices in this country.

Prices depend primarily on the forces of supply and demand but these are not autonomous and according to some economists, not even as important as the forces that modify them. Of the modifying forces, on the side of supply, the most important are *psychological*, *regulative*, *frictional* and *monopolistic*. On the demand side they are *fiscal* and those arising from *changes in the structure of consumption*.

It is easy to understand that prices should rise and fall according as the demand exceeds or falls short of supply. To that extent prices have an important economic function as they regulate consumption and production. This simple theory of classical economists was disturbed by the elaboration of modern trade and industry and has been nearly destroyed by the present war conditions. Quantitative relations of Supply and Demand presumed

free and easy movement in the market, the response of supply to demand being spontaneously equal and opposite. With spontaneity destroyed the quantitative relationship has less efficiency in the determining of prices. All the same it would tend to clarity if the price stucture is examined with reference to the factual, that is, quantitative bases of supply and demand as they are affected by other forces.

In 1941-42 both harvests were reduced by insufficient and irregular distribution of the rains. The reduction, however, was much less than what was expected or what is popularly believed. In respect of wheat the average of 10 million tons was actually exceeded by 70,000 tons though individual areas like the United Provinces were in deficit. Nevertheless it was the price of wheat and not of rice, which was in real deficit that first rose, and rising raised the prices of all other grains. This fact deserves to be clearly realised because it proves that our price problem is not so much of nature's making as of our own. It deserves to be welcomed because the problem of price control appears to have been created not by the inexorable factor of quantity but by other factors which are capable of control.

Of these factors the *psychological* one is most important on the side of supply. This was responsible for the hoarding of grain by stockists primarily and by cultivators subsequently in a similar though growing volume. Declaration of stocks which is now legally enforced has reduced concealment but has not and cannot eliminate it. It may have tended to draw the cultivator into the conspiracy as an agent for the stockist, the grain being held in the village for deliveries as and when the stockists can raise the price on the ground of scarcity. It should be realized that the real check against holding up of supplies is the fear of falling prices. This, however, does not exist because, firstly, the tendency of prices to rise is assured by past experience, and secondly, because the present system of price control itself tends to push up prices. The price structure can be saved from the consequences of psychological exploitation only by an assurance that prices will be stable for a stated period. This will not only reduce the tendency to play for prices by hoarding grain but will make control less necessary. The cultivator and the stockist are moved by natural self-

interest and inclination to hoard can only be weakened when it is proved to cause loss more than gain. Mass psychology is not effected by acts of Government so much as the facts of economics.

The *regulative* control is the second factor which is disturbing the play of forces of supply and demand. The economic pathology is not unlike the human one—regulative measures, like medicines lead to atrophy of function if instead of stimulating, they substitue for it. When price is fixed by regulation the forces of demand are atrophied and supply has to reckon with something less inexorable and more fallible. In the circumstances two courses are open, the first which is scientific and complete, of controlling supplies and the second which is in exact but inevitable of fixing the just or the economic price. Neither course appears to have been adopted. In the United Provinces as also elsewhere, when prices began to rise it was decided to restrain them by declaring that the limit was reached and it should be the maximum. The reaction of the market to this maximum was to present a condition of artificial scarcity. In the district of Hamirpur, this was met by ordering an inventory of stocks which removed pretences about scarcity and secured prices about 20 per cent. below those in the neighbouring districts. In other districts declaration of stocks was not enforced till 15 months later and each wave of artificial scarcity carried the official prices higher and higher. To relieve distress, each maximum fixed by the authorities became the stepping stone to another, the result being that wheat which was selling at 12 to 13 seers before the war is not available now at 4 seers a rupee. This increase has eventuated not because the demand has increased quantitatively but because the supply was manipulated and withheld. In the measure prices were raised to excite supplies, in the same measure concealment of stocks became part of the price structure. Declaration of stocks was enforced after concealment had integrated with market practices and had spread from the Bazaar to the villages.

This history of the movement of wheat prices shows that price fixation immobilized the play of the forces of demand so that stocks had to be excited by a continuous stepping up of prices except when the middlemen allowed them to be reduced while they purchased their own stocks from cultivators at harvest time. In real truth it was not

the authorities but the middlemen who controlled prices because the atrophy of demand left them in command of supplies with which they played for higher and higher prices. Control appears to have failed because instead of making prices follow it, it followed them. Its very failure encouraged speculation which it was designed to prevent. Even when the speculation in wheat was barred it was forgotten that speculation of other grains which substitute for wheat could provide the necessary leverage for raising wheat prices. By itself speculation, within natural limits, tends to harden prices by binding future sales at prices reached at harvest. In the past such speculation secured a natural oscillation of prices between harvests. When it was prohibited or truncated as it was till recently, its worst effects came into play. In fact stockists without supplies thought to make up loss of real business by speculative purchases and sales on commodities which they never expected to have but of which they knew the price was steadily rising.

The second measure of control which disturbed the market was purchases of grain for emergency reserves by Government and large industrial concerns. This was a new demand which disturbed the price level for at least three reasons. Firstly, the purchases which were from the middlemen added one more unit to the already long chain of middlemen with consequent increase in prices. Secondly, such purchases immobilized a considerable quantity of grain, ordinarily in free movement and added a new volume to the existing demand which pushed up the general prices. As this demand was restricted to particular markets it had strength far in excess of its quantity. Thirdly, the psychological re-action of large purchases creates the very panic of stalling and hoarding which the reserves were meant to prevent. It must be noted that the present crescendo of prices began with the action taken for creating reserves and that every step in this connection occasioned a sympathetic rise. The creating of reserves may have been necessary as a protective measure but in effect it was another form of hoarding, with the same economic effects.

The third measure of control was the ban on export between districts then and between Provinces now. The result of such a ban is to disturb the ordinary flow of trade and create pockets of scarcity the prices in which influence

the general price level. For instance, there is at present in the United Provinces the larger part of the bajra harvest which is greatly in excess of the consumption for its season. Nonetheless, it is being sold at a price at least three times the pre-war price in relation not to the local demand but to the demand outside the province which being denied has become more urgent and is expected ultimately to absorb the surplus in this Province at prices not lower than those now prevailing. If the bumper crop of bajra had been freely exported from the Province, the prices outside would not have risen to famine level and the local price level should not have reacted in sympathy with them. No system of controlled distribution unless it is done by one central agency promptly and accurately can prevent maldistribution which is the cause of panic prices in areas of scarcity. Free movement of grain to where it is wanted is, therefore, a first essential for bringing down prices from the artificial levels to which they have reached.

This leads to the third influencing factor, *Friction*. This represents the time lag arising from impediments in the adjustment of supply and demand in the same market. Of these impediments, transport is the most important. This, on road and rail, had been reduced and for a time was interrupted. In consequence prices shot up to points from which they were not reduced by the arrival of subsequent supplies. Not only this but in the prevailing conditions of panic the high prices reached in pockets of scarcity have tended to communicate themselves to the general price level. The time lag has furnished leverage for increasing prices. Secondly, friction has arisen from licensing shops. The grain business is a very intricate one, most grain dealers having their own connections based on custom or on moneylending. To the extent that licensing has reduced the number of shops, it has disturbed the inflow of grain through the old channels according to old affiliations.

The fourth factor is *monopolistic*. Grain business is competitive not with itself but with the producer and the consumer. In the same market not only the prices but the practices are identical and neither the consumer nor the producer can improve his terms by changing his shops. Prices in the days before the war were regulated by the level in the world market. After the war the market con-

tracted to India and then as free movement of grain was stopped, contracted to numerous pockets. In these pockets the monopoly of the stockists was complete and the prices raised by one of them were accepted by all of them. The war, therefore, has in respect of grain established local monopolies which has enforced not only old practices but also new prices.

Such is the causation of high prices on the side of supply. Any price control policy which aims at being real and effective must attack and reduce each of the causes. In respect of the quantitative deficiency the campaign already started of 'ploughing for victory' deserves not only to be pursued but to be reinforced by facilities for irrigation, seed supply, credit and if possible by changes in the method of cultivation to reduce the existing inefficiency in production. In dealing with the four other causes, two principles of price control have to be kept clearly in view. The first is that price control has to be applied to the profit margins. This means that just price has to be recognized and that only the excess over it should be controlled. The second principle is that price control can work only if the prices fixed regulate the flow of goods in the quantities and in the directions needed. This means that price control should work along the lines of least resistance strengthening existing tendencies more than creating new ones.

A just price is not easy to determine. Any average of old prices even with corrections cannot accurately cover the cost of production which have been affected by the war in more ways than can be detected. A price fixed with reference to the index number involves the fallacy of begging the question because the index number is itself largely dependent on the grain prices, which have swollen as noted above by factors other than those of supply and demand. A satisfactory basis for a just price could be obtained from the free play of prices during the harvest months when the majority of cultivators are compelled by their liabilities to sell their grain. Even though the quantity sold in these months has been reduced owing to rising prices it is considerable enough to contain the marginal value of the produce to the cultivator. A ceiling for prices fixed with reference to the average of these two months and including a small percentage thereon to cover cost of storage, deterioration and interest would not only

be just but easier to maintain. Such a price for the whole year will in the first place remove the tendency to hoard grain as this will carry no advantage. Secondly, as the majority of cultivators sell their grain during the harvest months, they and not the middlemen will be the whole beneficiaries of such rise in prices as may be economically necessary. Thirdly, as the price will be just it will be more wilingly accepted and may be more easily enfoced.

This is a far better solution than the complete withdrawal of control rates which the Government of India has just ordered. It is too late now to depend wholly on natural forces; the cultivator has learnt to hoard, the middlemen to conceal and except in the harvest months, when necessity drives, grain will lie dispersed without fear of the law and with power to call its own price. Control may be withdrawn in the harvest months to ascertain the just price, but it must be enforced thereafter, to maintain that price.

When the price is demonstrably just it should be inexorably enforced not only against the middlemen but also against the producer and consumer. It should be illegal for the first two to demand and the third to pay more than the price fixed. The policy of enforcing the price limit only against the middleman, enables him on one hand to plead that the cultivator is demanding more, and on the other to traffic with purchasers willing to contract out of their own rights. When all parties are comprehended in regulative measures, any one of them cannot play or be played against the other. The enforcement of the price fixed must be rigorous and ruthless and if there is some temporary distress it will end the permanent one. Neither the cultivators nor stockists can indefinitely hold up supplies and once they recognize that the price fixed is inevitable and inexorable the flow of grain will become normal and there would be no necessity to step up prices to excite it. Even speculation so long as it is confined within the ceiling fixed may be allowed and even encouraged as it tends to harden future prices. This proposal which secures a just price and its stability will also work along the lines of least resistance and will dispense with any close or day to day control of prices. To prevent the grain purchased at harvest from being concealed or used for the purpose of raising the prices

Government shops should buy a moiety of it directly from the cultivators in a scheme to be discussed later.

The problem on the demand side is not as simple as on the supply side. This is because demand cannot be assessed quantitatively with the same accuracy as supplies. Roughly speaking the quantitative demand has increased firstly, by reason of export, secondly, by the influx of refugee and the movement of evacuee population and, thirdly, by the new war time demand. The export of wheat in 1941-42 was about 160,000 tons and of wheat flour 82,000 tons. This is not a considerable quantity compared with the total production but its importance arises from the facts firstly, that it was obtained in bulk by methods most calculated to raise prices. Secondly, that though it is a small part of total production it is a more considerable part of the wheat coming to the market and, thirdly, that its very export had psychological reactions far in excess of the quantity involved. India's own additional war time demand is estimated at 500,000 tons. This is to feed the large number of cultivators who previously lived on coarse grains grown by them and now have to be fed by wheat grown for them. Like the exported wheat the war time demand has re-actions far in excess of its quantity.

The changes in population have an effect not to be measured in total because migrants are not evenly spread and where they concentrate may force up prices beyond the resources of the local supplies. Such increases in prices tend to communicate themselves to the general level.

Another important though obscure cause operating on the side of demand is the fact that for a number of years there has been food deficiency in the country. Between 1900 to 1938 while population increased 25 per cent. the food supply available for actual consumption diminished by 7 per cent. Dr. Radha Kamal Mukerjee has also occasion to notice that this decrease has been accompanied by change from more valuable food crops such as rice and wheat to inferior cereals like barley, bajra, jwar and maize. According to him, the food supply in India is short at present for 65 millions out of a total population of about 400 millions. One result of high prices has been that the cultivators who are the poorest class and suffer most from food deficiency have more money in hand than ever before. As this class increases its food supply and takes to wheat

instead of inferior cereals a new unit of demand is added. How considerable this can be is not possible to exactly estimate but in the aggregate as cultivators begin to eat more and better, the stock coming to market is bound to be reduced. Another obscure but also important change has been in the structure of demand for various grains. The old distance in the prices of superior grains and inferior cereals has been very greatly reduced. Very recently bajra was selling at nearly the same price as wheat though its normal relationship in price to wheat is as 1 : 2. The disappearance of the difference in prices may have been a result of wheat only being controlled. Whatever the causes, it is inevitable that when prices are nearly the same, the cultivator will prefer to keep his wheat for consumption and sell only inferior cereals which were previously his staple.

The psychological factor operates on the side of demand in the same manner as on the side of supply. The rich hoard and the poor buy in a panic adding thereby to the demand of the movement a new burden which must push up the price. Exactly as the prices rise the tendency to buy in excess of need is accentuated and in the aggregate the grain immobilized by the hoarding of individuals can be sufficient to disturb the market conditions.

The effect of surplus purchasing power on the demand side has been considered in detail earlier. When money is plentiful, more will be offered for necessaries like grain which have become scarce. Not only this but there is a structural change also. One such change appears to have arisen from the grant of dearness allowances and the salaries paid to the class employed in the army and in other war operations, a class which previously lived by agriculture. These classes and not the whole community have been given the power to increase their demand. The expenditure of this class is confined largely to food so that their increased income concentrates on a commodity in the price structure already burdened with demand for other reasons. Even the expenditure on luxuries which the higher classes have to curtail, on account of their absence or high prices, tends to be diverted to food. The old proportions of demand for various commodities in the markets are, therefore, disturbed.

The dearness allowances by themselves constitute a vicious spiral in which prices and wages chase each other.

Psychologically the increased wages are seized upon by middlemen to increase their prices, a fact which is actually proved by the parallel movement of prices and the grant of dearness allowances. Further any increase in wages is reflected in the manufactured products from which another disturbance in the price level arises. Effective price control can reduce necessity for allowances which are caused by high prices and are their cause in turn.

Lastly, on the demand side, fiscal changes have their effect. It has already been stated that to the extent increase in money has outpaced the increase in national output inflation has occurred. Secondly, according to a theory of Mr. J. M. Keynes when saving is not equal to investment, a rise in price is inevitable. If this theory is accepted the large increase in our cash income of the country has not been matched by an equivalent investment. Particularly the chief beneficiaries, the cultivators, have not found any use for their money. Such saving as Government has promoted is microscopic compared with the total increase in the cash income. Thirdly, according to another theory if the bank rate is less than the rate on investment, high prices are a consequence. At present there is a wide divergence in favour of profit on investment so that if this theory is to any degree correct another factor for increase in prices is abundantly active. The effect of these fiscal changes has to be neutralized by programmes to increase the national output. Each class should be offered investment as akin as possible to its interest. This will reduce hoarding of grain which is now regarded as an investment in the absence of alternatives which are secure and profitable. If the surplus money cannot be absorbed in the manner, the only alternative is higher taxation of the new incomes. The example of England is very clear and convincing. Excess profits have been taxed, but not sufficiently and effectively.

The economics of food supply are by no means simple and the forces which determine prices come creeping by creak and inlet before their tidal force is felt. Price control measures, therefore, have to refer to a background of details small in themselves but important in aggregate. These measures have to be along the line of least resistance breaking the force of tendencies before they gather together from different directions in a tide which no one understands, and nothing can withstand.

WAR AND ROAD TRANSPORT

BY

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The reaction of transport to war is different from its adjustment to conditions of peace. War is a circumstance that brings into the forefront military needs and priority movements. The industry cannot be left uncontrolled, for waste may result from service in which private interest predominates. The objective aspect of private interest is the magnitude of profit and not of service. In normal days price serves as the regulator of economic equilibrium. But it fails, as it should, in times of war. War necessitates, more directly than in other times, the record of maximum service and not of profit. Thus it is a quantitative and not a financial approach that should be made to the problem of transport.[1] And it is the one-ness of the whole industry that should be basic in the relations of the State to transport.

Reasons for Government Control.

The first object of the Government is to minimise private, unessential traffic movement, as it interferes with the speedy mobility of essentials and Government traffic. This minimisation could be affected by a ban on transport agents from carrying such traffic with the motive of profit. But the object is defeated if the Government controls the railways only. The parallel transport agency—namely the road—too must be brought within limits of control. For, it is not two different and unsubstitutable markets that motors and railways serve; and any latitude allowed to them would neutralise all control over railways. And unnecessary traffic would be alternately routed, *i.e.*, by the road as against the "blocked" railways. So, this contingency must be provided against.

The more direct function of the motor in war time may be characterised as "military." The outcome of war is conditioned as much by transport potentiality as by military ability. Though carriage of troops and materials is aided by ships and railways, the flexibility of the motor makes it an indispensable war truck to be put in active service. Supplies from places remote from the rail-

[1] "The success of railway operation must be measured not in rupees, but in service"—Sir Benthall.

way can be attracted only by the motor; and the proportion of such places is not small in India.[2] Further the motor becomes the ideal transport agent in the theatres of war—changing from time to time and day to day and situated at odd places. The less exacting road standards and the enviable flexibility of the motor stand it in a good stead in this respect. We may bear in mind in this connection the immense use of the tanker that the Germans are said to make in their land warfare. We may finally note that a railway is susceptible to easy and irreparable dislocation, while the road is not; and the motor is not one-tenth as much inconvenienced as a railway train.

Control.

The Government control began with the inauguration of the petrol rationing scheme. It aims at two birds at the same shot—the conservation of petrol as well as the curtailment of transport. The enforcement of the scheme would have rendered motors absolutely incapable of operation. But an alternative suggested itself; and revival in normal output could be secured with the institution of the producer gas plant. The result was obviously a sudden rush for gas plant introduction.

The demand was so sudden and imminent that dislocation had to result in road transport facilities on various routes. The disequilibrium in service continued in most cases for a fortnight, a month or even more, for the producers of gas plants themselves could not cope with the sudden and large demand for the plant. A few allegations may be made here against the Government. They could have realised, once they had been in the throes of war the imperativeness of charcoal gas as the motor's motive power, and should have encouraged the production as well as the use of the plant much earlier. While actually the absence of good standards for the plant in design and efficiency has led to a series of anomalies. Its price is not standardised, resulting in inequitous cost problems—as interest and depreciation are charges dependent thereon. Nor is its design standardised—resulting in varying productive efficiencies. Further the capital required is in itself a serious problem and constitutes a special hard-

[2] The Mitchell-Kirkness Committee give evidence that in a province like Madras areas farther than 10 miles from the railway bear about 50 per cent to the total area.

ship for the 'hire-purchase' motor owners. However, one incidental circumstance stood in the way of all these serious contingencies. For war has alongside brought about artificial conditions of profits for them, as competition is no more their sapping misfortune. War-bred prosperity has thus enabled almost all the owners in finding capital under easy conditions.

The other criticism against the Government is more direct and is in respect of the delayed process of control over the road industry. The industry had already been in the threshold of dislocation, being engaged in the transformation of the motor stock. The Government could have availed themselves of *this* opportunity in inaugurating their requisitioning policy. Actually it caused, when initiated later, a fresh disturbance in the re-settling conditions of the industry. A wiser and earlier requisitioning would have obliterated the recurrence of disequilibrium at intervals of time.

The charcoal bus has been the direct consequence of the petrol rationing scheme and could prevent the cessation of service in most cases. The economies of its operation may be noted in passing.[3] The cheapness of coal,

[3] A comparative cost sheet may bd given of a bus, with 20 seats, rendering 15,000 miles a year. The figures refer to 1941-42:—

Details	Petrol		Coal	
FIXED CHARGES:	Rs.		Rs.	
Interest on bus	240		240	
on gas plant			80	
Licences	1,400	1,640	1,400	1,720
STANDARD CHARGES				
Depreciation: 20 per cent on bus	600		600	
30 per cent on plant			300	
Common expenditure (Bus owners' Association)	120		120	
WAGES:				
Driver	420		480	
Conductor	300		300	
Cleaner, etc.	120		120	
Stand tax, etc.	40		40	
Repairs, Spares	1,560	3,160	1,560	3,520
RUNNING CHARGES:				
Fuel	2,140		800	
Oil, etc.	100		100	
Batta	160	2,400	160	1,060
Total ..		7,200		6,300

coupled with its less violent price fluctuation, has meant material relief to the motor industry. But there are a few disadvantages too. Interest and depreciation on the gas plant are the direct monetary debits, while the indirect diseconomies are comprised of the excessive heat for the driver, the increased thoroughness of cleaning the pipes and the plant, the space occupied by the plant and the coal bags, etc. . . . . . . The gas plant is, however, prospective of lower net costs in the long run. Only, good research, with Government encouragement, should be instituted in bettering the design and cheapening its production. The wide adoption of the gas plant in Germany is instructive in this connection.

The Government later began to requisition motor vehicles partly for A. R. P. work and partly for military movements. Consequently many routes had to experience an acute shortage in motor capacity; and motor service seemed to be in a pellmell—subject to irregular vagaries of petrol rationing, Government requisitioning and so on. The crowning restriction on motor capacity came ultimately in the shape of tyre-scarcity. The production of rubber and the availability of tyres have both begun to lag behind the needs and rationing had to be introduced. The Government declared their intention of dividing buses into four approximately equal groups of essentiality. The first and second groups have a priority for tyres while the third and fourth groups get what, if any, is left. Similar division into essential and non-essential types has been made of lorries too; and the latter cannot claim priority over the former. Such an "essentiality" division is devised to serve an incidental purpose too. Short distance traffc—under slight taboo in some cases on railways—has to be carried by the lorry. And it must not be exposed, in the process of such carriage of the essential type, to the risk of competition for tyres with the other vehicles. So, such priority is to some extent a corollary of railway policy. The timely change from oil to coal has now to face an unwelcome scarcity of tyres. This inability to pursue service will be a serious handicap in course of time with many motors, for the new plant introduced be-

This cost analysis shows a 4 pies rate per seat-mile in the case of coal, as against a 5 pies rate in the case of petrol.

comes locked-up capital, with recurring interest, depreciation and obsolescence charges, but with no means of recovering them.

The various measures of the Government—while reducing road transport capacity—have simultaneously mirrored the absolute inflexibility of the motor stock supply. The Government should have at least begun to ease the latter problem, before such rigidity was enforced on the road transport industry.

The net outcome of all these measures has been an inevitable cut in transport facilities. Already the railways are overworked. The motors are now incapacitated; and the former transport equilibrium is now broken. But under one—and only one—circumstance could an attempt be made at an approximation to the former equilibrium. And this lies in the intensification of motor operation. The inequity of the reduced number should be set right by an increased intensity of service. But there are a few factors impeding its wide practice. These centre round the pivot of war-time scarcity. Faster depreciatian necessitates fresh motor purchases. But motors are either not available or prohibitively dear. Not only is capital investment afresh a serious problem; but the scarcity of spares and aceessories—*e.g.*, tyres—is perhaps a more serious and immediate disability. And intensified service would bring the motorman earlier into its clutches. Further present intensity may not be much favoured if its consequence is a certain cessation of motor service in coming years—maybe even months—on account of these difficulties. But subject to the availability of revenue replacements and capital equipment, intensive operation is a desirable tendency that may be practised in order to minimise stringency in the transport market.

Rate Control.

We may now turn to the problem of higher motor rates. The simplest reason for the rise in rates is the rise in costs; while a variety of other factors has necessarily contributed to it. The contraction of transport capacity naturally led to a rise in rates; while the absence of railway competition favourably countenanced it. The increase in motor rates has been particularly marked on routes parallel to railways. The ever-rising rates of the

present day form a surprising contrast to the low and unstable rates of former times.[4]

But the question arises: Are not such abnormal rises to be controlled? There is good reason for the control of public utility prices even in normal times. Further it is a primary service and is at the root of many other costs; for transport is the pivot of production and the present high level of most prices is partly explained by reference to high transport costs. The reduction in road transport capacity should not be adduced as an excuse for the high level of rates; for such is the case with all necessaries during war time. Instead of tolerating such an economic process in times of war, the Government must ration space and keep down rates to normal levels. The rate should not be allowed to operate as an automatic regulator of passenger and goods demands, under conditions of contracting motor supply, for the incidence of the resultant evil varies with individuals and is actually harder on the poor passengers and goods. Hence controlled rates are the desideratum.

The actual process of rate control may present some difficulty to the Indian Government in the early stages; but this should not deter them from their resolve. The rate controls in other countries, in England for instance, have been based on a careful study of the increase in costs of service.[5] If costs increased by 10 per cent, rates also would be allowed to increase by 10 per cent. This is a wise procedure, for the limit of movement of rates, based primarily on costs, is thereby set by the rise in the latter. Now transport simply passes on its higher costs to others, without making any fresh addition. It is but catalytic and not by itself active. Thus the later stages of production cannot be costlier for transport reasons.

The fixation of these rates is not a frightening difficulty either. The present Regional Transport Authorities may take active interest in the cost matters of the motor vehicles and may calculate their increase percentages. These calculations, it may be noted, are much easier than many other computations, *e.g.*, index of wholesale prices. These may be attempted with due regard to

[4] For instance, the bus rate between Musulipatam and Bezwada has risen to Re. 1 from its pre-war level of 8 As.

[5] "Road Haulage Rates"—C. T. Brunner (*Journal of the Institute of Transport,* May 1938).

local peculiarities telling on costs, *e.g.*, road condition, taxation, price of coal, etc. The rate fixation, however, should maintain the rate relativity between the railway and the road; and the required rate manipulations must be made whether on the railway or on the road. Perhaps a little of latitude may be allowed to the motormen in fixing the rates. Thus maximum rates, instead of absolute rates, may be perferably fixed by the Government from time to time. It may be noted that such "maxima" fixation has been followed by the Governments of Finland and Hungary even in pre-war days. The whole process detailed above would virtually deal with profiteering in the motor business.

Organisation.

The important effect of war on the organised structure of transport in general lies in the elimination of competition between the railways and the roads. Pre-war days were characterised by colossal competition. Minimum statistical evidence is necessary here. The Mitchell-Kirkness report shows that about 48 per cent of railways are parallel to roads. Further the finances of railways, as per Government reports, Wedgwood report or the railways' private records, have been badly affected by competition. Sections like Nidadavolu-Narasapur and Narasaraopet-Bezwada on the M. S. M., may be cited as particularly notorious, where the uneconomic rates have been a result of the manœuvres and out-manœuvres by both parties. But all this has suddenly assumed but historical interest. Increased demand—especially on Government account—for transport, placed alongside with decreasing capacity and the difficulty of intensive operation, began to set right the pre-war excess of transport supply over demand. And, excess supply, severe competition, low rates and dwindling finances are no more the pevailing phenomena.

Co-ordination: The war-time absence of competition leads us naturally to the sphere of co-ordination. This is a comprehensive term with a flexible connotation. It implies the absence of duplication of service and uneconomic competition; embraces terminal co-operation and rate relativity; and denotes the balanced continuity of the transport net. The main means towards this end are: licensing regulation and rate regulation. Wartime of-

course precludes all possibility of redundant and competitive transport and to that little extent brings about circumstantial co-ordination. There is also closer rate relativity in the transport industry as the above discussion reveals.

But co-ordination, in the full sense of the term, has yet to be brought about. War-time adjustment is one of forced absence of competition and cannot be mistaken for full-fledged co-ordination. The Government has been a bulk purchaser of transport capacity. The semi-monopolistic nature of the bid and the authoritative character of its rules may directly facilitate the emergence of powerful road regulation through the various war-time controls.[6]

A few concrete steps may be outlined. The Government should not release all requisitioned trucks immediately on the close of this war. Nor should they let free all trucks whose construction has received encouragement under the ægis of war. For both these classes of vehicles would enter into normal business, glut capacity and become once again a strong impediment in the way of co-ordination. Meantime, the Government should, through the Regional Authorities or through some such new bodies created for the purpose, enquire into the normal transport needs of each route on the basis of past passenger or goods intensity and railway competition. Allowance should, of course, be made for the influences on the former of the level of rates and the stage of regional development. And the economics of railway competition too have to be inquired into. A final statement on each route, with approximate correctness, may be made on the basis of which licensing regulation may be effected.

Further, intensive operation has to be taken as the basis of such licensing regulation. Now, in the light of these licences based on such enquiries, the Government should make a conservative, deliberated and piecemeal release of war trucks in post-war days. This is the surest check over the probable chance of competition through

[6] C. T. Brunner: "Through the various 'controls' the State takes up a strategic position from which it can co-ordinate the whole of an industry. The whole economic system, including the road haulage industry, in war becomes dependent on work undertaken either directly or indirectly on Government account or on work which the State is in a position to control."

excess capacity and cheap and plentiful labour supply; it is besides the first step in road-rail co-ordination. The post-war policy should not cause anxiety for the motor owners, for all will be assured with business, if the Government further sees to the balanced continuity of the transport net, which is yet another condition of co-ordination. The extension of roads in India is to be another aspect of the Government's post-war programme. This would incidentally absorb the excess motor capacity in post-war days.

It may be observed, in the end, that war is just the opportunity for the Government to inaugurate effective co-ordination, for they gain in war a marked, though negative, incentive. We may realise that war is no doubt a state of abnormality implying colossal distortion and gigantic disturbance. But from the womb of every major chaos should emanate some bright hope for the future. War has been but an accidental regulator of some economic disequilibria and a providential indicator of some economic corrections. Let us view it in this light. And let us hope that the post-war Government of India will prove itself all the wiser for the experiences of war in the realms of transport.

ECONOMICS OF PRICE CONTROL

BY

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War is an abnormal feature of the body economic. Economic forces can work and can always tend to bring about equilibrium only under normal circumstances. They can even receive and react to temporary and slight disturbances. But when a War is on, especially one on such a large scale and intensity as we are witnessing to-day, abnormal deviations take place and the economic system fails to react in the normal way. One such abnormal deviation is the soaring price-level.

A preliminary question that arises is the general one whether any attempt should be made by us to interfere with the operation of the dynamic laws of Economics. After all, the economic body should be left to itself with the power to react in a suitable way to this external shock to bring back the normal equilibrium position by itself or to establish a new economic equilibrium; and, some say, any interference from us through the price control means an arbitrary fixation of that equilibrium against the operation of Natural Laws and some others say, any such interference is unnecessary, if not injurious. The question of price control is a mixed one. It has, as usual with all questions in Economics, an ethical as well as an economic side and care must be taken to distinguish between the two. That prices should be controlled and 'ceiled' in the interests of the consumers, especially the poor, is an ethical consideration whose ethics disappear when we remember that no minimum price was prescribed in the interests of the poor producer when a great depression was on recently. That prices should be controlled in the interests of the economic system itself so that the people might be ensured to consume enough in order to retain their ability to work and save is an economic consideration which deserves our attention. Any interference from us with the normal operation of the natural laws would be justified provided better economic results, *i.e.*, better production of economic

wealth would result. We need not always take the view that what is natural or normal is invariably good also.

Now let us see how far price control is economic in times of war and how far it is possible. Under normal conditions, price-level is said to be reached by an equilibrium of normal demand and normal supply which in the long run adjust to each other at that point. But the immediate impact of war brings about a sudden maladjustment between demand and supply in the following ways:—

Either before the war in anticipation of it or immediately after the declaration, the double reaction comes in where demand increases and supply diminishes. Demand increases because the consumer in anticipation of higher prices and less supply in future would like to buy more and stock the goods, while supply diminishes as the sellers want to stock the goods for the same reasons. These two forces bring about a sudden but short reaction to the price level. But slowly things would readjust themselves as nobody can stock goods for ever especially perishables. Only the 'unspent margin' of the consumers' goods with the consumers would increase and once that point is reached normal demand is once again established, and provided supply can be ensured, old equilibrium can be established; otherwise, and this happens exactly, a new equilibrium is established soon.

Meanwhile comparatively slow but permanent changes occur in the nature of both demand and supply. Normal demand remaining the same, supply would gradually diminish because some of the firms producing consumers' goods before might be diverted towards the production of war goods now. Then demand itself increases because of the new employment created by the war whereby new purchasing power is placed in the hands of the people. In a highly industrialised country, like England, where employment before the war was great, the new employment created by the war might only be at the expense of industrial labour. In this case demand for consumers' goods might not increase much but there would be an appreciable reduction in supply as industrial labour has been diverted for war purposes. But in a country of large unemployment in the normal days, like India, where the new employment for the war is got from the unemployed,

the rise in demand for consumers' goods would be great but supply in this case would not and need not be necessarily reduced because there is no diversion of industrial labour.

In this latter case, purchasing power is placed in new hands for the first time. The purchasing power so placed in the hands of the newly employed might be from two sources. It might be old purchasing power already in circulation but now withdrawn from the public by taxation and borrowing, or it might be new purchasing power created by the Government Printing Press. Some say that it is only in this case where new purchasing power is created that we get a condition of inflation but not otherwise, because what is withdrawn from the public is spent again and hence there would be no change in the price level. This contention is not quite right because even here prices are effected in another way as there would be shifting of demand from one group of commodities to another group depending upon the sections of the people from and to whom this money is transferred. Thus the transfer might be from, say, the rich to the poor resulting in the shifting of demand from mostly luxuries to necessaries. There might be inflation for some goods and deflation in the case of others. It is time we give up our concept of inflation as a complete whole and look to its plurality concept.

There is also another misconception. Some people talk as though inflation is something external and therefore could be controlled by controlling the supply of money. But there is one point to be considered. Even if we finance all the war by taxation and borrowing, inflation is inevitable, because more money is now spent on services and war goods that do not enter the market, *i.e.*, equation of exchange. So in this sense, inflation seems to be inevitable in the war or in any economy wherever there is shifting of labour from the production of material goods to the rendering of mere services.

Apart from the question of maladjustment of demand and supply, there is a natural tendency for a rise in the cost of production itself, which also adds to the rise in the price level. A rise in the cost of production occurs because of the rise in the cost of raw materials and wage levels. Even if these are controlled, still cost of production increases, because production of necessaries is always

under the operation of the law of Diminishing Returns and increased production means increased cost; and in the case of luxuries, they are under the operation of Increasing Returns, cost increases because their production is now restricted. This is a natural tendency and is inevitable in war time and care must be taken to make allowance for this element in our price-controlling policy.

Thus we see that the abnormal rise in the price level is not always due to 'inflation' as it is ordinarily understood, but is due to many causes, some inherent like the rise in the cost of production and some avoidable like speculation, and inflation which is a composite one consisting of both internal one and the increase in money.

Next we have to consider why we want to control the price level, and in a way this decides to what extent we have to control it. First comes the cost of the war. With a controlled price level the cost of the war would be less. Second and the most important one is the protection we can give to the consumer from the harassment of the seller who hoards and speculates. Finally to control the cost of production itself, because 'ceiling' and 'flooring' must go together in the control of price level.

Of these the protection of the consumer, (as I said before), is the most important one from the point of view of the scientific Economists. If the consumer is not supplied with enough to consume, his efficiency may be impaired and thus there might be a set-off to production. If that is the objective then price control would be of no use if the rise to be controlled is due to natural rise in the cost of production or due to the fall in supply. In these cases the objective can best be served by the State concentrating more on production than on price control; for rise in price is only an effect of the fall in supply and by controlling the effect leaving the cause we may be achieving nothing.

So we can now know that it is not all rise in the price level that we have to control and check, and that it is not always that price control that can bring about the desired result.

Sometimes a rise in the price level is not without its advantages and lessons. In war time restricted consumption only up to the absolute extent is very desirable and a rise in the price level along with rationing, taxation and

borrowing would bring about the desired result. Thus there is no economic ground for the control of the rise in the price of luxuries. Any such step might encourage the demand for luxuries which by directing the productive energies of the nation might affect war efforts. On the other hand if the prices are not controlled, in the case of luxuries a rise in the price level would act as a check and corrective to high consumption. But probably it would be difficult to distinguish between necessities and luxuries and some complications might arise because of this discrimination. So it is better that production of luxuries itself is restricted completely in a highly industrial country. In a country like India where there is enough of labour available, no such restrictions need be placed.

So we can now say that it is not all rise in the price level that we need control and that such control need not be in the case of all goods. A rise in the price level due to a natural rise in the cost of production should be allowed.

Price control would be possible and effective only when we fully understand the forces that bring about this result, and control those forces effectively. Price control is generally foiled by the 'black market.' The black market is created by the comparative scarcity of supply relative to demand. There are demand and supply schedules for each commodity according to which at each price different amounts of the commodity are demanded and offered for sale. The equilibrium price is reached depending upon these two schedules. This is a natural position brought about by the operation of immutable economic forces. So if any particular price is arbitrarily fixed by the Government by their price control scheme, the quantity demanded at that level should also be made available by the government. If a price is fixed but the quantity is not supplied, naturally the 'black market' is bound to arise.

Inadequacy of supply arises out of two causes. Firstly, there might be the natural dificiency of production due to its inability to adjust itself to the growing demands due to war conditions, or due to the diversion of productive activity for war purposes. Secondly, inadequacy might arise because of hoarding and speculation. The first cause might be eliminated firstly by increasing production of necessaries and secondly by preventing the soaring demand

by withdrawing purchasing power from the hands of the public by taxation and borrowing. But these so-called 'anti-inflationary' measures will not be of much use to us because money withdrawn thus from circulation is generally from the expenditure of the rich on luxuries. So demand for necessaries would not change by these measures, excluding the "Keynes' plan." So more production of necessaries is the only solution.

Fall of supply due to speculation, hoarding, etc., can be counteracted by requisitioning, anti-hoarding laws, etc., and above all by the determination on the part of the Government to fix a price level once for all and to stick on to it. People speculate and hoard only in anticipation of a rise in price. If they know that prices will not change in the nearest future, then no hoarding will take place. To-day in India, hoarding is directly encouraged by the Government by their policy of periodical revision of the prices. Such a periodical revision is justified, it is said, because allowance must be made for the growing cost of production from time to time. True, but it is exactly, what produces the hoarding practice. This difficulty of changing cost of production could easily be avoided by once for all fixing the cost of all the factors of production including wages on the Keynes' plan.

But mere price control and anti-hoarding laws cannot bring about the desired result in the absence of adequate supply. We should not lose sight of what we want to achieve by controlling the price level. Price control is not an end in itself. It is only a means to an adequate supply of necessaries, etc., to the consumers to retain their productive capacity. Will that be achieved if merely prices are controlled and even hoarding prevented, in a case where there is not an adequate supply of the goods. Even when prices are controlled there is a possibility of one section of the people, say, the rich and the influential, buying more than their due share, leaving almost nothing for the poor unless the supply is quite adequate. But if the supply is enough no price control is necessary as demand and supply would arrive at a suitable and equilibrium price level; in this case it is enough if we have anti-hoarding laws.

But price control has a place only where there is not enough or where there is just enough of supply of goods and where it is desirable that all the people should get a

fair and equitable proportion of the supply. Price control while fixing a price suitable for the poor cannot also guarantee the supply of that commodity to them unless it is accompanied by severe rationing. Without rationing, price control defeats its purpose by making it easy for the rich and the influential to obtain commodities cheaper leaving the problem of the poor unsolved.

There is another school of thought that mere withdrawal of money from circulation at a uniform rate from all sections of the people including the poor would serve the purpose and price control and/or rationing are quite unnecessary (for instance, Keynes' plan). The fundamental assumptions underlying such schemes are that reduction in purchasing power would result in a uniform and proportionate cut in the expenditure of individuals at the margins in all directions and that there is at least an adequate supply of goods available for consumption. But neither assumption is correct. If there is a cut in my purchasing power, I would cut down my expenditure first on luxuries—and there the cut might be uniform in all directions—leaving expenditure on necessaries intact; in fact, that is our definition of necessaries. The result would be that supply remaining inadequate—in war time it is reduced, as we have already seen—demand remains at least the same and so price rises. The rich would cut down their expenditure on luxuries and buy enough necessaries leaving almost nothing to the poor who cannot afford to offer high prices as they have no money. It is to solve this rise in price level beyond the capacity of the poor that we introduce control of price level. But mere control of price level may result in the rich and influential still buying more if there is no rationing.

So we come to the conclusion that not only it is that price control is inadequate but that it is positively injurious to the social interest if it is not accompanied by rationing or some other way of ensuring adequate quota to the poor. But rationing itself would involve a severe control by the Government of production, supply and marketing. In other words, the Government should have a complete monopoly of the supply of these commodities, if we want to achieve what we want to get by price control.

Thus price control is only a part of a big whole and either the whole must be tackled together by the Govern-

ment or the whole must be left away to the operation of the natural laws. Sporadic and half-hearted attempts at price control of one commodity or the other, revision of the prices now and then, price control without rationing, rationing without adequate supply—all these show on the part of the authorities a complete ignorance of the operation of economic laws and an inadequate appreciation of the true situation.

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THE CONTROL OF INFLATION IN INDIA

BY

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In recent discussions on the rise of prices in India, sometimes the question is being asked whether there has been 'inflation.' Thus the Viceroy in his Calcutta speech referred to the 'risk' of an inflationary rise in prices; others have referred to the sound budegtary condition of the Government of India and questioned the existence of inflation. Still others have pointed out certain important facts responsible for certain rises in prices like transport difficulties, curtailment of imports, speculative hoarding of goods and raising of prices, etc. But it must be clear to any keen observer that we are having an inflationary rise in prices, which is being re-inforced by these particular factors which help to limit more severely the consumers' goods available to the community. The difference between particular rises of prices due to 'bottlenecks' and general inflation is only one of stage,[1] and beyond doubt we have reached already the latter stage.

The basic facts to be taken into account with regard to inflation and its potentialities are consumers' income and the volume of consumers' goods available in the country. "The most pertinent component of this balance" says J. M. Clark, "is that one which places on one side that part of the total sum of individual incomes which individuals would normally wish to spend on consumers' goods which it will be practicable to reach, as the defence drive progresses."[2] Inadequate understanding of this basic fact has led to obsession with relatively secondary questions like the increase in note-circulation, total increase in production, existence of a balanced budget, etc., and hence to a false sense of security in some cases. For instance a writer in a recent issue of *Capital* writes,

[1] J. M. Clark: "Further remarks on Defence Financing and Inflation"—*The Review of Economic Statistics,* August, 1941.

[2] Do.

referring to the large expansion in bank deposits in India. "Thanks, however to the increase in productivity, there is no need to view askance this colossal expansion of credit, and inflation has so far been successfully warded off."[3] Evidently the fact that expansion of production has mainly been in war-industries has been overlooked here. Similarly, as Galbraith says "the volume of revenue raised or the size of the deficit, bears little relation to the problem of inflation. An inflation is theoretically possible with a balanced budget just as stable prices are wholly consistent with a sizeable deficit."[4]

The two most important factors responsible for the expansion of consumers' income have been universally recognised as the increased civil and defence expenditure of the Government of India, and the expenditure on the part of His Majesty's Government in India—the two together standing at Rs. 533 crores in 1942—43. Besides these increases in expenditure by Governments, we must take into account increased expenditure by the Railways and other public enterprises, dearness allowances, bonuses, wage-increases, etc., by other public and private employers, and increase in investment on defence industries and other industries which do not produce consumers' goods. That this last one is an important point is clear from what Hansen says: "The defence expenditure will enlarge the total income-stream directly by a certain amount. Moreover, certain repercussions on private investment in plant and equipment will be induced by general expansion."[5] Thus increased investment leads to an expansion of consumers' income (and expenditure) over and above that caused by increased defence expenditure. (It is interesting to note here that investment on works and in certain industries not competing directly with war-industries have been suggested as a method of draining purchasing power from the market, as though what is invested by some does not become consumers' income in the hands of others![6]).

[3] "India's Banking System"—*Capital* Supplement, 23 December, 1942.

[4] J. K. Galbraith: "The selection and timing of Inflation Controls" —*The Review of Economic Statistics*, May, 1941.

[5] A. H. Hansen: "Defence Financing and Inflation Potentialities" —*The Review of Economic Statistics*, February, 1941.

[6] K. P. Viswanatha Ayer, "War-time Currency Expansion and its Significance"—*Commerce*, 19 December, 1942.

Expenditure by the American forces in India, and the possibility of any net dishoarding either due to speculative hoarding of goods or to the pressure of higher prices are two more potentialities to be taken into account. The latter is particularly important in view of the fact that at present large idle balances are being held by people in the shape of demand deposits with banks, and these quantities of "monetary dynamite" may be thrown into the markets for consumers' goods at any time.

If, finally, the vicious circle of wages and prices chasing each other gets started, which has not happened so far, the situation will get completely out of hand. We need not dwell on the consequences of such a development. Hansen warned "Inflation is more insidious than unemployment, and it should not be allowed to get started anywhere."[7] We have already given it a fair start: the point is whether energetic measures will even now be taken before it gets more violent.

The main measures available for controlling inflation. and adopted successfully elsewhere are by now well-known. They are (1) increased taxation, direct and indirect, (2) increased borrowing through loans, backed by powerful porpaganda, (3) forced loans or schemes for converting a part of peoples' incomes into accounts blocked for the duration of the war, (4) direct measures of comprehensive price and wage control accompanied by priorities and rationing, and (5) control of credit policy. Different people emphasize some of these measures, their merits and demerits and would rely more on some of them. But it has by now become clear that all these and any more available measures are needed to control inflation. "A realistic policy seems to call for moves on all fronts, with as much co-ordination as can be managed."[8] The remarkable success of American and British programmes of inflation control is due to such comprehensive planning.

Our problem is, considering the peculiar circumstances of our country, how are we to use these measures to control inflation? Any significant reduction of consumption must come mainly from the masses of the people. Hence it is clear that voluntary savings, on which many seem to pin their hopes, are not likely to solve the problem. Subscrip-

[7] A. H. Hansen, *op. cit.*

[8] J. M. Clark, *op. cit.*

tions to defence loans have been disappointing,—their total reached only Rs. 121·51 crores by the end of October 1942, of which small savings stood at about 5 crores. Moreover reliance on voluntary savings beyond a point is unsatisfactory because they may themselves be the results of inflationary finance as has been conclusively shown by Keynes in his "How to pay for the war." Government may meet expenditure first out of issue of notes by the Central Bank, ways and means advances, or Treasury Bill floatations held by the Banking system; this enhances the purchasing power of the people, which through rise in prices flows into the hands of the profiteers, and from them back to the Treasury in the shape of increased voluntary loans or tax proceeds. This process may be carried on with success but with clearly inflationary consequences: such was the process mainly in the last war, and most probably such is largely the case with the financing of Indian Governments' and His Majesty's Governments' expenditure and the repatriation of sterling debt to-day in India. A large increase in the Treasury Bill issue, standing at Rs. 90 crores in November, 1942, as against a peace-time average of Rs. 35 crores and the large sterling holdings of the Reserve Bank of India are clear indications of the tendency.

Hence the main ways to be developed are further taxation and compulsory borrowing. Taxation has already been pitched high, and the extent to which it can be geared up higher in the direct field without killing incentive is small. Indirect taxation is regressive, and will be a great injustice to the workers and peasants who are entitled to higher incomes as rewards for hard effort. Consumption taxation, therefore, while effective is inequitable and it may well lead to demands for higher wages, thus defeating its very purpose.

The only way open to curtail consumption while giving the masses the benefit of higher incomes is by compulsory savings. The two main difficulties here are administrative and psychological: how to collect compulsory savings from the millions of masses, and how to convince them that these are necessary?

The only machinery available is that of the tax structure. The rich and the upper middle class are already tapped by the income-tax, E.P.T., and the compulsory savings plans tacked on to these; these can probably be

extended to the higher incomes in addition to the present taxes.

There remain the agriculturists, workers and the lower middle class. The agriculturists can be asked to pay larger amounts for the land revenue on a graduated scale, in all roughly yielding, say, about double the present land revenue payments. The extra payment can be credited to a blocked account, earning interest, which can be used for collecting land revenue in post-war years. In other words, agriculturists are to make advance payments of land revenue for post-war years. They should also be encouraged to pay off in this period of high prices their outstanding debts to all credit agencies as far as possible. Credit for purposes of consumption should be severely restricted by co-operative agencies.

It will be possible to adopt a scheme of compulsory contributions on a wide scale only if the consumer can be assured that prices will be prevented from rising further (and even brought down in some cases) and that a sufficient quantity of essential goods will be available at those prices. This means that a programme of fixing ceiling prices for a large list of essential goods and their substitutes and a machinery for distribution on a rationed basis to consumers is urgently needed. This can be done by registering all consumers in each area with a distributing agency—a Government depot, or a co-operative stores (or a licensed dealer as suggested by *Capital*,)[9] for each of whom a definite quantity of essential goods will be assured and allotted. This is the only means, however difficult, of assuring equitable distribution and preventing hoarding of essential goods.

Once such a machinery is created, it enables us to apply a plan of Compulsory savings to the masses of the people. A general retail sales tax of say Re. 0-1-0 in the rupee can be imposed, prices inclusive of the sales tax fixed; the contribution of each registered consumer will be calculated every month and credited to a blocked account. The tax on other sales will be an outright contribution; differential sales taxes can be levied also on luxury and semi-luxury goods as well as on all speculative transactions.[10]

As regards industrial workers, ceilings must be fixed

[9] *Capital*, 17 December, 1942.
[10] J. W. Angell: *The Review of Economic Statistics*, May, 1941.

for wages, and any increases or bonuses must be in the shape of deferred pay. One important method of sterilising a part of their incomes is to start immediately a plan of contributory unemployment insurance in all large enterprises in India. The war is being used as an opportunity for extended social justice elsewhere; even if we cannot have a full-fledged "Beveridge plan" let us at least make a beginning.

Blocked accounts may, as Keynes suggested, be released for certain purposes like the payment of insurance premia, or emergency expenditure. These moneys, it will be noted, will be collected by provincial governments which will lend them to the Central government.

It is essential to note that comprehensive price-control, the setting up of a country-wide machinery for the distribution of essential goods on a rationed basis with the registration of consumers, and the programme of compulsory contributions—all these are interdependent and form a co-ordinate plan. These can be supplemented by revising the cash reserve requirements of joint-stock banks to prevent dishoarding or large lending for loan subscriptions, specially in view of the fact that the present cash ratio stands as high as 18·3%.

There remains the psychological problem—its solution will largely depend on the extent to which Government and leaders of public opinion can co-operate in convincing the masses that this is the best alternative to the evils of inflation or heavy taxation.

SOME ASPECTS OF ECONOMIC CONTROL IN INDIA DURING THE WAR

BY

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The expediency in time of war of economic control even at the risk of injustice to small groups of the public cannot be denied. Though it is not easy to adjust rival claims of producers and consumers to restore equilibrium in the price-structure, the problem of price-control cannot be left as a counsel of despair. It means control over the supply which has to be undertaken cautiously and with foresight. In India to-day, the whole economy is geared to war production and the common necessaries have become scarce and expensive. The real causes of the rise in prices were that the costs of production have gone up, while the producers and middlemen-merchants anticipating enormous war demands and shortage of supply in the market, by the diversion of capital and labour to war-industries, concealed a part of the stock. No district or province is self-sufficient in the matter of its requirements, food or otherwise, and this factor does not go against the smooth running of socio-economic life in normal times. The purchasing power of our masses being low, their condition has become serious due to the rise in the price of commodities all round. High wages and incomes in Britain and America help the people to pay even fantastic prices asked for, while timely rationing, stabilised their general position. The Government of India have no comprehensive planning and hesitate to take strong measures against the wholesale racketeering that is going on in the country. Considering the peculiar position here, one cannot expect the Government to take into its hands fully, production and distribution and ration everything on a scientific basis. An attempt will be made in this paper to point out the manner and method of the enforcement of economic control by the Government of Madras particularly, with reference mostly to foodstuffs, and the problems the Government of India have

to face in future from the national and international viewpoints.

As far back as 1939, the Government of Madras desired to make careful enquiries and obtain accurate statistical information in respect of the essential commodities whose price sharply rose following the outbreak of the war and to restore confidence in the markets and among the public. The warning they issued to profiteers had some effect in steadying prices of necessary articles. Again, Taluq and District Prices Advisory Committees composed of representative men and trades were constituted for the purpose of fixing mean fair prices of certain commodities. Their object was not to control prices but only to check undue profit being made by intermediaries between producers and consumers. Towards the end of January of last year, the Government of India decided that emergency powers under the Defence of India Rules be exercised by all Provincial Governments, and in virtue of this, the Government of Madras in turn, delegated to District Magistrates powers under Rules 76, 79, 81, 83, 89 and 116 pertaining to prices, the maintenance of essential supplies and services needed for the life of the community, requisitioning foodstocks and warehouses, calling for information about stocks, etc. These powers practically remained defunct since, in the districts, steps were not wisely taken either to control industry, or to fix prices or even to secure the availability of foodstuffs and commodities in daily demand in the local markets.

Again, following the G. O. dated 19-5-42 issued by the Madras Government, Regional Price and Supply Boards consisting of the representatives of the Government and of the southern States were set up to consider the question of the movement of food-grains, etc., within the area, to make recommendations for short-circuiting them, to adjust the level of retail prices on the basis of wholesale prices fixed by the Central Government and to deal with the proper distribution of commodities. This work is expected to be expedited by the Provincial Commissioner of Civil Supplies whose powers are to direct, co-ordinate and enforce measures for the distribution of supplies, and for the control of prices and to guide District Collectors. There matters also do not seem to have gone far, nor brought in any tangible results.

A major crisis may develop in our country if the food problem is not tackled in all its bearings by quick and vigorous action. It is well known that even in normal times our population were underfed and that in years of low productivity some part of the shortage was met by imports from Burma and Siam. The perplexing spectacle presented to-day is that while our imports are cut off, we have to supply our neighbours like Ceylon. Added to this, there is the demand from the military stationed in India. It has been estimated that the deficit during last year in respect of rice stood at 3.24 million tons and of wheat at 4,30,000 tons, and that our country is deficient in her food supply for about 63 millions of her population. It is the imperative duty of the Government to increase production and even to import an authoritarian element in its distributive methods. As a result of the "Grow More Food" campaign, the total acreage under rice in India had been increased from 73 to 75.6 million acres, while under millets, the acreage had gone up from 51 to 56 million acres. This increase was secured by substituting food crops for money crops. But this drive would prove a better success if more concrete measures are adopted to help the ryots to increase their produce and to secure for them all the things they need at fair prices. The food control regulations adopted so far by the Government have not prevented rise in prices, growth of black markets, nor ensured required supplies for all at controlled prices. It has been pleaded by official spokesmen that in case the Government were to guarantee to the consumer a reasonable quantity of food-grains at fixed rates, the controlling authority should have full command over the available supply of foodstuffs as also over the consumers' demand. No doubt the degree of success achieved in Great Britain by a system of control was due to control being exercised by a single authority and to complete co-operation between the State and the citizens. Illiteracy of the Indian masses, apathy of the public, the political situation in the country, the present constitutional status of the provinces and similar arguments usually put forth against enforcement of salutary and effective economic controls do not count much.

So far as the Madras Province is concerned, rice is being supplied from two principal areas, *viz.*, the Tanjore Block and the Circars Delta, the surplus districts in

the presidency. The deficit districts are Malabar, Coimbatore, Nilgiris and partly Salem. There are, besides, areas of self-sufficiency. Imports of rice into the province per year used to be 10 lakhs tons. During last year, the total deficit was nearly 8 lakhs tons. The grain purchase officers working at Bezwada and Tanjore, the centres of surplus areas, note the quantity of rice in demand from different areas like Cochin, Ceylon, etc., issue licences and permits to wholesalers to trade in and to despatch consignments to areas of demand, recommend priority to secure wagons, and also enjoy the right of seizing stocks and requisitioning rice. One anomaly is that the growers or landlords of paddy and other food-grains can sell them without limit and other restrictions. The prices of these food-grains or rice are left to the play of the laws of demand and supply. The big merchants are buying largely and cornering stocks to be supplied to the Purchase Officer at high prices with the result that local prices are soaring up. Thus, while inter-district or inter-provincial arrangements are being worked out, the food requirements of the population, even in the so-called surplus districts, are not thought of. This is undoubtedly a short-sighted policy and is breeding discontent among all sections of the public. While the policy of the Government is enriching the wholesale-merchants, it has met with colossal failure in affording relief to the rest. The Government seem to take comfort in the belief that with the appointment of officers described as Food Controllers and Controller-General, their purchase-scheme will succeed and tension will be eased. What is needed is ensuring supplies to the needed localities, arranging for their proper transport and distribution, preventing the stocks from disappearing underground or finding their way to the black markets and bringing to book the unscrupulous traders. The Central Government has to collaborate intensively with the Provincial Governments in

1. financing and purchasing stocks of foodstuffs, storing and selling them;
2. authorising some dependable agency to undertake such work and to exercise certain powers;
3. fixing prices of food-materials and other necessities of life and publishing them.

Some Governments as those of Bombay and Bihar are adopting stringent measures such as freezing stocks of rice held by wholesalers and prohibiting trading in future. The different provinces and States are attempting each to safeguard its own interests, while the agents of the Defence Authorities are making large purchases of food supplies at any prices and wherever they can. The urgent need of the hour is greater co-ordinated action between the Centre, Provinces and States, the civilian and military requirements, and ensured minimum supply of food at reasonable prices for every consumer.

The case of sugar which is a necessity for the rich and poor alike is to be examined next. The way in which control is exercised in regard to sugar in the Madras Province is that the local Government directs its internal distribution under the advice of the Sugar Controller for India. The consignments are despatched from the mills in the United Provinces and Bihar according to the quota sanctioned and are received in Madras by Messrs Parry & Co. who distribute sugar to licensed wholesalers. The retail merchants procure their supplies and sell at the stipulated price; but these are not bound to declare their stocks or to submit fortnightly returns to Sales Tax Officers, like the wholesalers. There is always a scramble for sugar, as the merchants hide the stocks and are realising, in certain instances, better prices than those fixed by law. Here, again, a feeling of uncertainty rules in the market and discontent prevails among the consuming public.

The retail prices of tea of different brands have soared up and the situation seems to be inescapable. The agitation in regard to this matter is weak since this commodity is not an essential article of food. But one problem needs be mentioned viewed from the standpoint of the nation. As a consequence of the British Ministry of Food's block purchase scheme of all exportable teas and the resulting absence of private exports, transactions in Export Rights have practically ceased and the result is that several small growers of tea in the Nilgiris are now unable to sell their quotas at reasonable price. The Government of India has, therefore, to make special arrangement to take in these quotas.

The war has affected the growers and traders in ground-nuts also in the Madras Presidency, thereby

creating a peculiar situation. More than one-third of the normal pre-war export of this commodity used to be made to European countries. But the loss of those markets coupled with inadequate shipping facilities have necessitated efforts to secure extended markets elsewhere, though the results achieved in this particular are meagre. The British Ministry of Food is buying the bulk of their purchases in India of ground-nuts, which step has improved the position. Though internal consumption is increasing, it cannot absorb all the unexportable surplus. The authorities are therefore advising the agriculturists to curtail cultivation and to grow instead other crops which would give them a fairly assured return.

Another representative article of food to be considered are chillies. This southern province is self-sufficient in regard to chillies. But there is an enormous increase in its price due to

1. inadequacy of transport facilities restricting free movements from the surplus districts of Guntur, Kurnool, Ramnad, Tinnevelly to the deficit districts in the southern part;
2. increased export to Ceylon; and
3. profiteering by wholesale and retail merchants all over who have pushed up prices under cover of a general rise in the prices of other foodstuffs. Co-operative stores can play a useful part in stocking chillies and selling them to the public at fair rates, since that agency can secure special facilities from the Government.

Next to food, comes clothing as an absolute necessity of life. It is a matter of daily experience to meet the rich and poor alike complaining about the disproportionately high rise in the price of all kinds of cloth. Hence, supply and distribution of some standard cloth specially to certain classes of people has to be undertaken forthwith by arrangements of the Indian and provincial governments.

It is reported that the Government of Madras do not propose to participate in the working of the Central Government's scheme for the supply of standard cloth from the mills in Upper India, on the ground, that such

a step amounts to competing with handloom products and that they are evolving a plan for the production of such cloth in sufficient quantity through handloom weavers. Closely connected with the supply of manufactured cloth is the problem of surplus cotton. The continued low prices which the growers secured for their produce induced the Government to pass the Cotton Fund Ordinance which did not bring in much good to the peasants. It is not known to what extent success has attended the efforts of provincial governments in persuading the ryots to change over cotton to foodstuffs.

The Madras Government through their Order issued just an year back, beyond instructing the Prices Advisory Committees in the districts to determine fair prices of firewood and to publish them, did not choose to compel the dealers to bring down the rising prices. It may be suggested that depots of firewood and charcoal are to be started and run by the officers of the Forest Department in the important towns.

Owing to the sources of supply of kerosene being cut off and due to the constant demand for oil, the authorities have successfully introduced a scheme of price regulation by which they fixed up quotas to the three big distributing firms in India. These latter supply to their regular agents definite quantities at Rs. 4 per tin, while the agents in turn authorise retailers to sell to the public at a higher rate. From the viewpoint of organisation and rationing the arrangement is well thought out. But it has to be remarked that the traders have been resorting to the condemnable practice of secreting stocks and selling them privately at prohibitive prices. The Government should spare no pains to bring to book such persons offending against public policy, while at the same time, they have to open more selling depots to help the people to obtain their fixed supplies with less discomfort.

It is encouraging to note that the Indian States being impelled by common motives and aims are co-operating with British India in the matter of economic controls also. The spirit of reciprocity animating them can be appreciated from the Press note published towards the end of December last by the Government of H. E. H. the Nizam wherein it was explained that the intention of price control is not and should not be that every Indian Province or State should conserve for itself all its pro-

duce and refuse to supply it to others, and that it is essential to have a uniform price control policy for the country, as far as possible, though this would mean detailed planning.

If the Government itself undertakes, within certain limits, the conduct of productive enterprises, benefits will accrue to the nation as a whole. Industrial or agricultural expansion incidental to and moulded by general social growth and environmental facilities is the basic fact about economic change or evolution. Economic life or the economic element in social life might well be passive and adaptive and therefore, in itself, essentially stable though reality is full of discontinuous change. The war has enforced a good deal of co-operation owing to the necessity of Government to deal with producers as a group in their respective spheres of activity. Public control has to be applied in some large instances in national interest, and more so, during critical times as the present. The collaboration and mutual leadership of friendly nations as a war-necessity exemplified for instance, through the working of the Eastern Group Conference, lease-lend arrangement and the like promise to serve as the basis for more beneficial and scientific cooperation on a wider scale in future. We in India are beginning to learn what privations of war mean, and economic control is inseparable from the general conduct or results of war. Out of the experience of the temporary measures there should emerge possibilities and practicabilities of more permanent reconstruction. The measures to be thought of would be vigorous action against economic storms following the war, setting up machinery for preventing economic chaos, giving security to the people against depression, enhancing economic peace between nations, etc. In a subdued light this idea is reflected in the recent plan of Sir William Beveridge. In the midst of a global war, this scheme on social insurance and allied services embracing in scope of persons and needs grapples with the post-war world relating the existing British social institutions to the difficult problems to come. Planning is part of war effort and the decisions that are made by governments and business enterprises will determine the pattern of life of the people at the close of the war. In Great Britain and U. S. A. scores of private and public organisations are studying

the problem from its three-fold aspect—domestic, inter-empire and international. India too has to follow suit in order to facilitate transition of the economic system from one based on a war footing to one resting on peace, without causing dangerous slump in the level of industrial output, incomes, prices and employment, and assuring, at the same time, a decent standard of comfort to her people. In order to increase the total volume of national production, agriculture has to be carried on scientific lines, industries require to be developed, technological progress must be achieved and trade has to be expanded. All this implies energetic planning. Meanwhile, the country has to experience suffering, economic or otherwise; and the supreme test of the people will be their willingness to aid the war effort of which submission or co-operation with economic control is but one aspect.

SOME ASPECTS OF PRICE CONTROL IN INDIA

BY

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Now that the war "is more influenced by the science of economics than by the art of strategy"[1] the successful prosecution of the war rests upon the part played by the economic controls that are put into effect during the war time. The object of such controls is to maximise the economic effort of the community for the war and to keep the real cost of the war at its minimum limit. Controls in war time have assumed various forms and the most important aspect of them is the control of inflation, i.e., a state where a rise in prices exceeds rise in costs, leading to abnormal profits.

The measures of price control are not of a recent origin. Even in the time of the French Revolution, control of prices and movement of grains was introduced in order to check the evil effects of the issue of the 'Assignants.' The French used to refer to the 'taxe' of the commodities by which they meant the regulation of the price of the commodity.[2] It is to be found that price regulation is much easier at present than in 1789 in France or even in 1914 in Great Britain because of the evolution of the machinery of public regulation in modern times.

I

Now, let us consider the case of Indian price level during the present war, and the control measures that the Government have introduced so far.

Ever since the war has been declared, the price index has been rising fairly though not at a steady and uniform rate. This has been evidenced by the Calcutta price index which reached 345 in August, '43 (August '39 base.) There was also an increase in active note-circulation by this time; but prices have risen to such high limits, not as

[1] Crowther: *Ways and Means of War.*

[2] Harris: *Assignants.*

a result of the increase in the volume of currency, but because of the shortage of goods either due to absence of imports or due to persistent demand, the increased employment, increased transport costs, and higher salaries and wage-bills in war-time industries, and the speculative and profiteering activities of traders and middlemen. There are some special reasons which led to an abnormal increase in the price level in India, namely, the large purchases made by the Government of India through the Supply Department and other agencies at high prices, the lack of adequate transport facilities and the resultant defective distribution, and the failure of the provincial governments to regulate the prices. Thus the increase in prices in India is more pronounced than in other countries, like United Kingdom, South Africa, Canada and the U.S.A. change due to the policy of iron rationing and effective where the rise is limited, while Germany reports little price control. Of course, China is the worst sufferer in the matter of high prices.

Besides observing the general increase in prices, another important feature must be noted, namely, that all prices do not move at uniform rates, but that the rate of change is extremely unequal from commodity to commodity and from group to group, depending on their conditions of supply and demand. The following table[8] reveals that there is a wide disparity between the rise in prices of Industrial products and that of raw materials and foodstuffs.

INDEX NUMBERS OF WHOLESALE PRICES IN CALCUTTA BY GROUPS OF ARTICLES (PRICES IN JULY, 1914-100).

Period.		Cereals.	Sugar.	Tea.	Oil Seeds.	Raw Jute.	Jute Manufacture.	Raw Cotton.	Cotton Manufacture.	All Commodities.
1939 August	...	83	162	140	101	57	79	64	97	100
1940 ,,	...	98	153	153	99	53	85	71	117	115
1941 ,,	...	119	145	225	108	101	156	86	213	149
1942 July	...	153	220	197	162	69	126	102	...	182
1942 December	...	250	231	293	199	98	159	142	...	238
1943 August	...	572	355	106	323	113	194	176	...	345

[8] *Commerce*, 16th October, 1943.

II

Broadly speaking, the objects of price control in any country are to prevent speculative rise in prices and profiteering, to prevent the cost of living from rising abnormally and leading to a demand for rise in wages, etc., and to keep down the money cost of the war for the government. In order to examine the measures of price control introduced in our country, it must be realised that the application of such control need not be uniform in respect of all commodities, but that it should depend on the peculiar conditions of each group. For instance, while production is somewhat inelastic and prices are elastic in the case of agricultural commodities, prices are inelastic and production is elastic in respect of manufacturing articles. Thus the problem must be considered in its different aspects, i.e., to allow certain prices to rise up to a limited extent and to control certain other prices, though all prices have to be controlled at some point or other. Accordingly, there is some discrimination in favour of agricultural prices in India. The Price Advisory Committee points out that the ryot is seldom in a position to imitate the rise in prices which starts in the market, that Agriculture must be compensated for the loss it had sustained in the period of depression, and that a rise in such prices will result in the increasing prosperity of the rural population, which will favourably react on the agriculturist's willingness to respond to the "Grow More Food" campaign.

To see that this rise in agricultural prices is actually benefiting the poor farmer, who cannot wait and stock his grain, but hastens to sell at a very low price what he has, the Government must ensure a level of farm prices as it has been done in U.S.A. For this purpose, grain purchase offices must be set up at every taluk, and the government must purchase directly from the peasant, without allowing the undue interference of the middleman or broker, who profiteers by exploiting the ignorance of the rural masses. Co-operative sales societies may be organised in order to achieve the same purpose. Such mechanism may also help the government when rationing of foodstuffs has to be worked out. For the present, this opportunity of allowing a considerable increase in agricultural prices may be taken by the government in order

to propagate among the rural population to wipe off agricultural indebtedness as much as possible.

III

Next, turning to the actual control measures which have been enforced with a view to keeping down the prices of certain articles, maximum prices (wholesale and retail) have been fixed in the case of some important articles like matches, paper, shellac, sugar, kerosene oil and motor spirit. The government have set up Price Advisory committees whose main function is to check profiteering and to keep the retailer's profits within limits by steadying bazar prices. But the Government have themselves received many complaints from the public regarding the innumerable black-market practices, and that the articles are not sold even at the maximum prices fixed. Instead of seriously trying to rectify the evil practices, they give dearness allowance to the government employees. Though it may temporarily come to the rescue of the government employees in meeting the rise in prices, such a policy results in a vicious circle of higher costs of production, higher prices, higher cost of living and still higher wages. So a policy of giving dearness allowance has nothing but a poor psychological value.

Besides fixing maximum prices in certain cases, consumers' rationing has also been introduced. The purpose of rationing, according to A. C. Pigou is "*to* conserve sufficient supplies of some important commodity for poor persons as against better-to-do persons, who would otherwise force up the price and take nearly all that there is,"[4] i.e., to prevent chaos in distribution of an article. But its function is of a more extensive nature. As J. J. Polak writes, "Rationing is not only a means of distributing a few particular commodities, but it constitutes an element of war-time price policy."[5] Broadly speaking, fixing maximum prices involves rationing, because price fixation below the equilibrium point of supply and demand creates shortages, generally at places away from the sources of supply, which sooner or later involves rationing. But does rationing avoid the need of price

[4] A. C. Pigou: *The Political Economy of War.*

[5] J. J. Polak: "Rationing of Purchasing Power to Restrict Consumption," *Economica,* August, 1941.

control? In theory, it may avoid the need, in case all the members of the community were to eat at the same table, as in a communist society. But in practice, price control and rationing work best together. Unfortunately in India, rationing cannot be enforced on a wide scale, because in countries where food supplies are mainly home-grown the enforcement of rationing and price control is more difficult than in most of the raw materials for consumers' goods are imported. Again India is a vast country where there are articles of many varieties and grades, where there is no standardisation either in production or consumption, and where trade is not well-organised. In spite of these limitations, rationing has to be introduced in special cases.

Consumers' rationing is of different kinds, but in India only two of them are in practice. The most complete form of rationing is 'Quantity rationing' which is enforced in the case of petrol. Being an imported article and a product of standardised kind, the administration of control in the case of petrol is easy, and it is less harmful here than in U.S.A. where there is more dependence on the private car. Of course, there is the difficulty with regard to the responsibility of preventing the leakage of coupons to hands not intended. The second form of rationing is the 'Queue' system, which is being practised in the case of kerosene. No doubt, supply of kerosene has been greatly restricted; but there is almost a battle of kerosene in the bazar, and the difficulty of this system is that this does not lead to equitable distribution, unless the authorities investigate the way in which it is being doled out to the small consumer and find adequate substitutes.

IV

So far, the price control conference met as many as six times, but nothing has been done to put down black-markets, and to bring about an efficient control of supply of the commodities and their distribution.

An integrated programme of price-control, rationing and restriction of consumers' purchasing power must be built together in order to avert inflation. Black-market practices can be avoided if the government by themselves will set up government depots and co-operative agencies where articles at controlled price are made available. The fixation of prices must be extended to almost all the

necessaries of life, and especially in the case of the substitutes of all articles which have already come under control. New methods of rationing like 'Point System of rationing' as applied in the case of clothing in Great Britain may be introduced; and hoarding, stocking for resale, etc., can be checked by more effective measures of rationing. Ultimately, purchasing power itself must be restricted to cut down consumption. Voluntary borrowing and additional direct taxation have been enforced in order to tap the resources of the rich and the upper middle class. But the main problem is how to restrict the purchasing power of the lower middle class and the poor, *e.g.*, wage-earners and agriculturists. Two different methods have been suggested to achieve this purpose. Firstly, a plan of deferred payment, according to which a part of the income of wage-earners is deducted at the source, which will be credited to the labourers in the form of a blocked savings account, to be unblocked after the war. The main difficulty with regard to this plan arises in convincing the wage-earner that such compulsory deferment is in lieu of taxes. Especially in an undeveloped economy like ours, where there is not even a scheme like working-class Insurance, compulsory contribution is very difficult of enforcement. Secondly, consumption taxation has been suggested as a potent weapon. But here the cumulative effect of taxes like the general sales tax will lead to an increase in price by more than the amount of the tax, which results in demand for still higher wages. Besides, in our country, especially when prices have risen to high limits, any taxation bearing on consumption will have adverse psychological reaction, leading to discontent on the part of the consuming public. The defects of these two methods can be overcome, if both consumption taxation and a system of deferred payment are combined into one. A sales tax on some necessities, of a particular amount can be collected and credited to every registered customer, to be released after the war. Since the tax is collected not at the source of income, but from out of expenditure, there is not much subjective burden in such compulsory payment. And because it is a deferred payment, naturally, every customer registers himself without much inducement; if the purchaser does not register himself or if he buys from dealers who are not given license by the government, the sales tax will be an outright tax.

If this system is applied in the case of all important articles, it will be effective in controlling prices, in rationing certain commodities and in contributing to the finances of the war; thus it serves as an anti-inflationary measure during the war, besides working as an anti-deflationary measure in the post-war period, when a part of the purchasing power which is restricted during war will be released.

NEED FOR WAR TIME CONTROL OF FOOD STUFFS IN INDIA

BY

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All are combatants in a modern war. The soldier at the front kills and is being killed just as ever but the civilian at home fares much worse now. The civilian population not only faces the fullest fury of the enemy in the form of aerial bombardment under which it groans and smarts but war subjects the non-combatants to inconceivable sufferings and disasters and distresses of a vast and varied character. The enemy seeks to create confusion in its ranks and to break its morale for it is the civilian population that sends and maintains huge armies in the field. Any disruption of the Home Front brings about a collapse of armed resistance, for, a modern war involving as it does a stupendous conflict of arms is fundamentally a race for supplies which determines the General's direction of war and the soldier's fate on the battle-field.

Nations at war must, therefore, look upon the Home Front as the real war base. Great, no doubt, as ever is the part that military strategy and the morale of the soldier must play in determining the fate of war we must never lose sight of the fact that a modern war is fundamentally a war of the people. The farmer behind his plough, the miner underground, the factory hand at machine, even the shepherd and the silk-worm breeder all constitute the real sinews of war. In fact the entire civilian population is very much in the war and is busy efacing itself or the enemy.

It is, therefore, of the utmost importance that nations at war must give the highest possible attention to the unification and consolidation of the Home Front.

Rise in prices and necessity for control.

Due to a variety of causes prices of a large number of commodities go up during a war. Prices in fact not only rise but soar and shoot up. As incomes of all classes either

do not rise at all, or the rise if any, is not in proportion to the rise in prices people are subjected to hardships in varying degrees. (But war though an ill-wind blows colossal good to certain sections.) To some it brings an immensely rich harvest of profits, to some it blows undreamt of wind-falls and to the unscrupulous it affords an opportunity for huge ill-gotten gains.) In India as elsewhere the prices of a large number of commodities have registered a rise of 50, 100, 200, 1000 and in some cases of even 5000 per cent. over the prewar level. Such a rise in prices is in most cases utterly unwaranted by the conditions of supply and demand. (Such a phenomenal rise in prices can be attributed entirely to the unbridled activities of the speculator stockist-monopolist combinations and their limitless rapacity.)

Man, no doubt, does not live by bread alone but if he is to live at all and live in peace and to maintain his efficiency he must get his due share of bread without concern. Any Government which fails to reasonably feed and clothe and to provide other fundamental physical needs of the civilian population will soon find its armies starving in and stampeding from the battle-field.

India produces immense quantities of foodstuffs and we have had bumper harvests this year. In spite of increase in demands for military and export purposes the position in regard to the prevailing scarcity prices and disappearance of stocks is absolutely unintelligible.

Wheat Price Control and its working.

Price control over wheat was introduced only after matters had been allowed to drift for themselves for a considerable time. The price of wheat at the commencement of the season this year was fixed at Rs. 5 per maund with an express assurance that the rate shall remain unaltered throughout the year. As the control price had for all practical purposes no reference to the qualities and grades of wheat the first achievement of the control was to drive superior-quality wheat out of the market which was captured by an extra-inferior quality of wheat. Good quality wheat was, it is evident, purposely and wilfully degraded in quality through an unwholesome mixture of barley, mustard, peas and a variety of inferior grain and abnormally liberal qualities of dirt into the bargain. The adulteration was carried on to a criminal extent and placed the

honest producer of better quality wheat in a position of hopeless disadvantage.

Well-to-do consumers in cities who had undergone bitter experiences in securing supplies of wheat made a rush on the market as soon as the supplies began to come in. They accumulated stocks, it is feared, above their normal annual requirements, no doubt, prompted to a certain extent by a false alarm of an impending invasion of the country.

At any rate the difficulties experienced during the past year created strong reactions and carts were emptied of their loads in such unseemly haste as bred confusion and grave anxiety as to the future supply of foodstuffs. The confusion and anxiety were both alarming and contagious.

The corn-dealers who were busy purchasing and stocking wheat helped to spread the confusion and alarm both to their immediate and ultimate advantage. Cart-loads of wheat were bought wholesale miles away from the municipal limits of towns and secretly stored in go-downs and dwellings away from the markets. The more influential and wealthier corn-dealers found their rest shield in being out of the reach of the shot and stored wheat in villages where it was produced and purchased. It is estimated that for a variety of reasons the quantities of wheat brought to and sold in the markets by the grower were this year considerably lower than in a number previous years. For future guidance this should be ascertained by making special enquiries which should as well look for the causes of such a behaviour.

This artificial scarcity of supplies created by the growers or dealers or both gave the average citizen a fore-taste of future scarcity and in his confusion and distress, in spite of the control, the consumer was fleeced by the corn-dealer. The control prices were openly discredited.

'Military purchases' and 'war exports' were very fully exploited by the corn-dealer who with heaps of corn in front of his shop tricked the customers by declaring that his stocks had already been sold out.

The Stockist.

The stockist is the source of all trouble. Is he the corn-grower in the village or the corn-dealer in the city? A section of the people would have us believe that this

time it is the grower who has displayed rare business ability and foresight in withholding considerable stocks of wheat. For those of us who still hold that the Punjab, the proud granary of the East, is a land of peasant proprietors steeped in debt and hard pressed by their obligation to dispose of their produce at the commencement of the harvest season, it will be difficult to accept this view. But the possibility of the cultivators, not to speak of the landlords in the Canal Colonies, having hoarded a portion of their produce, howsoever small, cannot be entirely ruled out. The grower could afford to hoard or withhold wheat from the market if he so desired because : (*i*) At the control prices which were at least 75 per cent. above the usual pre-war rates he could at the commencement of the season raise enough money to meet his pressing obligations by the sale of only a portion of his produce. (*ii*) Rise in prices of all agricultural produce had brought considerable additions to his income. (*iii*) Large scale recruitments to the army had set in a steady flow of money to rural areas. (*iv*) Last year's experiences had left him wiser. He felt wheat would be difficult to secure for his needs once he sold out his stocks. (*v*) The grower anticipated a rise in prices in spite of the control and if otherwise free to do so he resorted to hoarding. (*vi*) Silly rumours of all kinds reached villages, magnified a thousand times and produced strange reactions. The tenants in the United Provinces, it is said, were made to believe that paying of rent to the Landlords was useless as Japanese administration which it was feared would soon be set up in India, would require them to make payments over again. (*vii*) The grower who had a surplus above his immediate needs was reluctant to part with his wheat for currency notes which have no intrinsic value and the vicissitudes of war in the East had shaken the confidence of the layman in the future of his country. Wheat is better to hoard than paper.

The Corn-Dealers.

Some of the corn-dealers in cities had their misgivings. They apprehended that large stocks if accumulated may provoke requisition by the Government and subject them to loss. Some of them, however, sure of making hay while the sun shines, brought and stocked wheat not only in cities but in distant and safer places in villages

where chances of 'raids' were the remotest. The big corn-dealer realizing how slow the administrative machinery in this country moves and how successfully its operation can be blocked and finally how insignificant is the penalty in comparison to the grains expected began piling up stocks in anticipation of colossal grains which he has by now reaped in plenty.

Black Markets.

Control as if by a magic touch drives commmodities underground. Wheat is to be had but not at the control price. In the Imperial city of Delhi where a boy after a two days' search for *atta* burst into tears and sobs and submitted that he and his mother had been starving for two days, the well-to-do purchaser in the darkness of night buys his requirements at prices three or four times higher than the control rate. In all transactions the cash-memo tallies with the control rate but the purchaser's depleted purse and bewildered looks tell a different tale. *Atta* that sells in cities at prices considerably higher than the control rate is an abominable mixture of dust and cheaper grain of every conceivable variety. While such an *atta* will in due course bring its own harvest of disease the supply of even such a commodity is a problem that baffles a satisfactory solution.

Control is a mockery. It has defeated its own purpose and is honoured more in breach than in observance. In spite of pressure of external demand for military purposes, the bumper harvests of the year particularly Bajra and Maize, make us hope there is enough food in the country to feed the population. The food stuffs have gone undergrounds and the will to bring out such stocks is absolutely lacking. Bajra is selling at Rs. 8 per maund in spite of a harvest which in its richness defies a parallel. Occasional raids by even an inadequate and powerless agency, Provincial Price Control organization, unearth large stocks of wheat. A raid in Delhi was rewarded with two thousand bags of wheat, one in Sargodha reclaimed four thousand bags and one in Jaranwala enriched the open market by twenty thousand bags which means some thing like half a lakh of maunds.

The food situation is growing alarmingly serious and if the administration in spite of warnings from all big cities continues its policy of indifference the country will

soon be in the grip of a disaster which is bound adversely to affect the peace and order in this country. Grain riots and food thefts must be taken as a shadow of coming events and it is in the interest of all to adopt means to feed the country in peace and to restore confidence in the ability of the administration in this country, to cope with new situations as they arise. Adaptability, speed and efficiency in solving civil and military problems that arise is essential to the successful prosecution of war and civil problems may have to be treated on war basis.

It is desirable that the control should not only continue but it must be made more comprechensive and really effective. The present half-hearted measure that we call ' control ' is in its operation an unmistakable index of administrative inability or unwllingness to honour decisions taken with a view of safeguarding the vital interests of the population. Black-markets could be foreseen in an ill-organized country of such huge dimensions as India. Black-markets have crept in even in England where Government control is so comprehensive and where adequate and effective organizations have come into existence and where the average citizen displays a bettter realization of what is at stake. The tragedy of it all is that every day experiences of life do not leave us wiser.

The following are some of the suggestions for making price control effective :—

1. Speculation in all its forms covering the whole range of not only foodstuffs but the entire agricultural produce in general must be put an end to.

2. The stockists must be treated as fifth-columnists. Stocking and profiteering in foodstuffs which amounts to underfeeding and starving the population is a crime bordering upon murder and treason. In a number of European countries stocking is punishable with death. One 'Chartered Accountant,' writing in the *Statesman* has aptly portrayed the public feeling against such traitors in the following words :—"Instead of condemning the hoarders and speculators why not peremptorily issue a decree that these human vultures will be subjected to

crushing penalties plus immediate confiscation of all their stocks." That is what must be done. The punishment meted out to devils of the Black Markets is too light to deter them from playing their nefarious trade. But such an action requires public co-operation and a competent and adequate agency which at present does not exist. Dependence upon overworked police, C.I.D. and magistracy will not ensure success. In every city and town there must come into existence an agency with adequate powers and will to work. Confiscate a few stocks and award heavy punishments to a few stockists and the hoards shall be unloaded on the markets overnight.

3. In providing foodstuffs to towns and regions which are not self-sufficient all available means of transport should be co-ordinated and transport of foodstuffs should rank in urgency equal to the transport of troops for war. The failure of control this year is in no mean measure due to the lack of transport facilities real or artificial. A big city with food shortage should be treated as an encircled army which must receive its share of all sorts of supplies.

4. The government, municipalities, district boards, co-operative societies and social service organizations must individually and severally attempt to provide within their sphere of influence grain to the consumer at control prices. Adequate supplies at control rates by Government or private voluntary agency is the surest guarantee of the success of the control. But such agencies of distribution will bring their own problems which for their solution will need an army of honest God-fearing and patriotic citizens, which the country will provide in the required numbers.

5. We have started at the wrong end and in absence of data and adequate agency for the

success of control over wheat, we ask the corn-dealer to sell at a particular price without ever caring to ascertain the quantity of his stock. With permit or without permit wheat has moved from one province and place to another province and another place but nobody has cared to follow it from the unloading railway station to the black-market in the same or in a neighbouring city.

6. Success of control processes depends upon the ability of the Government to have a thorough knowledge of and complete control over not only the produced entire quantity but also over the distribution of foodstuffs. Complete acquisition of supplies at the source and their equitable and speedy distribution is the only solution. But in this vast sub-continent of scattered and disorganized small cultivators complete governmental control of supplies has its own peculiar difficulties and is a task apparently impossible of performance. The Government must, therefore, at the commencement of the harvest season of each food crop arrange for a record of all supplies brought and sold. Each village must have its own sale organization committee which makes daily records of individual or collective stocks sold to corn-dealers or other urban purchasers either in the village or in the town market. Every transaction in a *mandi* effecting transfer of supplies must be recorded. If need be only a few licenced corn-dealers may be allowed to purchase wholesale at fixed rates and be allowed to sell to other dealers. Clean daily accounts of all foodstuffs entering and leaving the *mandi* must be inspected by a proper authority appointed by the Government.

7. Control Officers in towns must have local Advisory Committees representing all interests to help them in understanding and

solving problems as they arise. Sellers contravening the provisions of control must not be allowed to ply their trade.

8. Provincial Governments must make purchases or accept revenue in kind in order to sell supplies to the deficit provinces. Government purchases must have the fullest publicity in the absence of which exaggerated accounts help to create utterly wrong impressions.

9. In big cities which import foodstuffs from different provinces rationing should be introduced with a view to conserving available supplies which should be liberally granted. Obtaining supplies in towns is at present a whole-time job. Crowds at cheap depots struggling as if it were for their very lives excite not only the onlookers' pity but his contempt as well for our methods and organizing ability.

10. The *atta* that sells in the cities must be examined at every sale shop and adulteration in all its forms must be stopped. *Atta* sellers are making gold out of dust.

11. Printed control rates notices must be prominently placed in every shop selling foodstuffs and hours for which shops must remain open should be specified.

12. The central and provincial Food Control Departments must be organized and run on sound basis and the greatest possible care must be exercised in selecting personnel for them. Let all remember that food is the foundation of civil defence. Give the soldier his ammunition and the civilian his food in plenty and victory will soon be ours.

11. The grow more food campaign has not much advanced beyond a text for academic oratory by a minister here and there. A few thousand acres in the Punjab have been, no doubt, brought under cultivation but

throughout the country where millions of acres are available for cultivation no appreciable extension has come about. Indian agriculture needs a revolution. The war has afforded an opportunity which if seriously availed off, will help to feed and clothe people beyond the borders of India.

12. Lack of an All-India Policy has been responsible for a good deal of trouble. The food control organization must exercise vigilance and imagination and must not be slow to take decision. It is estimated that large stocks of wheat in the Punjab are still being hoarded in the hope that control rates shall be raised by the Government.

13. Lack of coordination between the various units of consumption helped to make confusion worse confounded. Districts wanted to monopolise supplies above their requirements when neighbouring areas were in a state of siege. Each area must find out its requirements and should ask for no more.

14. The existing trade channels should be utilized with advantage as new and parallel agencies will be hard to set up on the required scale.

A FOURTEENTH CENTURY EXPERIMENT IN PRICE CONTROL

BY

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Alaud-Din the celebrated Khilji Sultan ascended the throne in October, 1296, and passed away in January, 1316. His experiment in price control well over six centuries ago may be studied and followed with advantage even now. Ziaud-Din Burni has left us an exhaustive account of the regulations and measures relating to price control but as was to be expected details of operations and basis of price determination have not been recorded.

The incessant inroads of the Mangols weighed heavily on Alaud-Din's mind for in them he saw a formidable challenge to his power. He reorganised and consolidated his defences but was not slow to realize that veteran generals and impregnable forts alone, in the face of invading hosts, constituted weak defences and thus afforded doubtful protection. He recognised the moral strength of members and, therefore, decided upon organising an army the mere numerical strength of which should be staggering. Such a huge and well equipped army, as he contemplated to raise, naturally involved very high initial and maintenance charges. The Royal Treasury with all its gold and silver, it was calculated, would not suffice to support the army of his ambition for more than five years. The danger, then, being practically perpetual needed a permanent remedy.

Alaud-Din, after the manner of Changaizi and Turkestani Kings, thought of a permanent reduction in the pay of the army. But, on a consultation over the question, the Kings' Councillors showed a better grasp of the economic foundations of life. The Councillors respectfully submitted that the Sultan's object could only be achieved when all necessaries of life as well as equipment for war—horses and weapons—could be had at reduced prices. In modern language the Sultan's Councillors by increasing the purchasing power of money sought to aug-

ment real wages of the army. The Councillors submitted that with the cheapening of the necessaries of life any reduction in the pay of the army would provoke no discontent.

The Councillors' suggestion met with the Royal approval and the Sultan instituted certain regulations which brought about a reduction in the prices of necessaries of life and this enabled him to create the army of his dreams.

1. Prices of Foodstuffs

The forces of supply and demand which constitute the economists' trusted stock in trade became subject to the Sultan's command. The Sultan personally fixed prices of all foodstuffs and the Delhi rates were in force throughout the kingdom. The rates were as follows:—

Wheat	...	7½	Jitals	per	maund.
Barley	...	4	,,	,,	,,
Gram	...	5	,,	,,	,,
Rice	...	5	,,	,,	,,
Mash	...	5	,,	,,	,,
Moth	...	3	,,	,,	,,

The Jital was of a silver tankah and has been estimated to correspond in value to 1½ farthing. The maund it has been estimated weighed slightly more than 28 lbs. These estimates, however, for various reasons may not be accepted as final but the rates as given above are genuine. There never occurred the slightest variation in the control rates during the life time of the Sultan even when the monsoon failed for the state granaries held enormous stocks and easily made up all deficiency in produce.

Control Regulations.

The Sultan issued the following regulations for enforcing the control rates:

I. Agency for Control.

Malik Qabul was appointed Shahna-i-Mandi or Controller of Markets and he was charged with enforcing the control. The control rates were not to show the

slightest variation. He was granted a considerable Jagir and allowed a large retinue of horse and foot as a mark of position and influence.

A wise and experienced Assistant was placed at his disposal and the markets were well provided with supervisors too. This implies the creation of an honest, well-paid, reliable and adequate agency to enforce price control.

II. State Granaries.

Revenue from Crown lands in the Doab was decreed to be realized in kind and the grain thus received was to be accumulated in State Granaries. In the New City and its districts the State's share amounting to one half of the produce was ordered to be realized in kind and was to be stocked at the granaries of Jhain and at other towns of the province. The grain thus collected was to be sold to the grain-dealers in case of need. Huge stores of grain were thus collected in the city and there was no quarter of the city which had not at least two or three well-stocked granaries. Whenever, for whatever reason, the corn-dealers failed to bring to the market adequate quantities of grain the State Granaries came to their rescue and there never was a shortage of supplies in the market. The grain market thus never experienced a shortage and the control rates never registered even the slightest variation.

III. A specified Market and Licenced Dealers.

A large number of grain-dealers were forced to settle in the villages along the bank of the Jumna and were made to execute an agreement accepting all control regulations concerning rates and supplies. This considerable army of grain-dealers assured such regular and adequate flow of supplies into the market that under normal conditions the State Granaries had not to be tapped for supplies.

IV. Regration A Crime.

Hoarding of grain for private sale and profit was prohibited by the State. The prohibition order was so rigidly enforced under severe penalties that none of the fraternity of merchants, headmen in villages and shop-keepers in cities could store or sell on private account even half a maund of grain for benefit or profit. Unauthorised stocks of corn wherever found were confiscated and the stockists subjected to severe punishments. The Nawabs

and Officials of the Doab were directed to put an end to regration on private account within their territories. They were personally answerable to the throne if ever private stocks were discovered within their respective jurisdictions.

V. Supplies for Corn-Dealers.

The officers of the State were directed to help the grain-dealers to buy corn at fixed prices from the cultivators direct at the grain heap. The Sultan had commanded the State Officials of the territory within the 'two rivers' to demand revenue from the cultivators with that promptness and severity which would render the transfer of grain from the field to the grower's home and its consequent regration a sheer impossibility. This enabled the corn-dealers to maintain a continuous flow of supplies to the market. The cultivators too as far as possible personally brought supplies for sale in the market.

VI. Intimation Concerning the Operation of Control.

The Sultan received from three independent sources the Controller, the Supervisors and the C.I.D. intimation concerning the operation of control and for any breach of control regulations the controller was held responsible.

VII. Rationing during Scarcity.

When a scarcity occurred the shop-keepers of every quarter were daily given quantities of grain enough to support the population they served. Half a maund was allowed for each purchaser in the market and likewise for such men of rank who owned no villages or land. The supervisors in the market were severely handled by the king if any purchaser failed to receive his appointed ration without inconvenience.

II. Prices of Cloth

A spacious market named the Serai Adl was specified as cloth market. The Sultan commanded that all cloth whether from the State Factories or brought by merchants from the city or outsiders must find its way for sale to Serai Adl where alone all transactions in cloth must take place. Buying and selling of cloth outside the cloth

market was prohibited under severe punishments besides confiscation of stocks.

Rates.

The rates of cloths of various descriptions were fixed for specified quantities and lengths as follows:—

Delhi Silk	16	Tankahs
Inferior Silk	6	,,
Mixed silk and cotton ...	3	,,
Fine stripped cloth with red border	6	Jitals
Rough stripped cloth ...	3½	,,
Red Nagouri for inside linning	24	,,
Rough inside linning ...	12	,,
Shareen Bafat 1st class ...	5	Tankahs
Shareen Bafat 2nd class...	3	,,
Shareen Bafat inferior ...	2	,,
Salahat fine quality ...	6	,,
Salahat ordinary quality...	4	,,
Salahat inferior ...	2	,,
Linen sheet	10	Jitals

Hours of Business.

Business in Serai Adl was transacted during stated hours every day. The Serai Adl opened early in the morning and closed at the time of the first afternoon prayers.

Registration of Cloth Merchants.

Under orders from the Sultan the names of all cloth merchants local and outsiders were to be registered with the Dewan-i-Riyasat and the merchants were made to execute an agreement undertaking to bring specified quantities of a variety of cloth for sale annually in Serai Adl. The merchants brought such an abundance of cloth in the market that the products of the State Factories fell in demand.

Advance to Cloth Merchants.

The Sultan ordered an advance of twenty lakhs of tankahs to well-known Multani merchants who were given certain offices in the Market and who undertook to supply requisite quantities of merchandise of every description for sale at the Serai Adl at fixed prices.

Permits for purchase of Precious Cloth.

There was quite a large variety of precious cloth used by the nobles alone. Varieties of this type of cloth included Tasbeeh, Tabraizee, Zarbuft, Zarnigar, Kimkhab, Shustari, Hareeri, Cheeni, Bherum and Devgari. The purchase of these precious varieties of cloth could only be made on the basis of a permit granted by the Controller of Markets who in granting such permits took into consideration the position and means of the purchasers. This precaution was adopted with a view to frustrating the designs of merchants and purchasers who could easily sell in distant parts of the kingdom at much higher prices such varieties of cloth bought at control prices in the Central Market of the Kingdom.

Horses and Cattle.

For military and other purposes there always existed a keen demand for horses and horse-dealers were well-known for their rapacity. Horses were graded and prices were fixed in relation to quantities within a grade. The following scale of prices was fixed:—

Horses of the 1st quality	...	100—120	tankahs.
„ „ „ 2nd „	...	80— 90	„
„ „ „ 3rd „	...	50— 70	„
Ponies for non-military use	...	10— 25	„
Bullocks (for carrying burden)	...	4— 5	„
Cows for milk	...	3— 4	„
Buffalos for milk	...	10— 12	„
Goats	...	10— 14	Jitals.

Horses for the army were purchased through Government agency. Horse-dealers, capitalists and brokers were prohibited from carrying on their reckless trade and since the prospects of huge gains did not easily reconcile them

to honouring the State regulation of their exploitation of the buyer and seller alike, they were prohibited from carrying on this business and some of them had even to be reported to and detained in distant fortresses. The Sultan every now and then personally looked into such transactions and summoned expert horse-brokers to satisfy himself that the State-regulations in regard to the classification of horses and range of prices were being duly honoured.

Slaves.

Detailed regulations concerning the purchase and sale of slaves were framed and enforced. The prices of slaves were fixed with due regard to their age, sex, experience and qualifications. As the slave-market seems to have been another source so highly exploited by the Keesahdars and the Brokers these functionaries of the slave-market were severely handled by the State like their counterparts in the horse market.

The range of Control.

It is recorded that considerable difficulties were experienced in enforcing control regulations embracing commodities of practically every description. But determined effort at enforcing the regulations enabled the State to fix and control prices of commodities of all descriptions including loaves, sweets, vegetables, combs, needles, sugar-cane, fish and even beetle-leaves.

No mercy for offenders.

The Sultan ruthlessly controlled the sharp practices of the shop-keepers and severly punished the use of short weights and faulty scales and measures. He would send his boy-servants to buy things in the open market and in case the seller proved guilty of tricking the purchaser and giving short weights the deficiency had to be made good, let us hope in case of hardened offenders only, by their own flesh. For dealing with normal cases of market offences special officers with powers to award severe punishments to offenders were appointed.

This experiment in price-control made over six centuries ago has its own lessons of great practical import-

ance for the war-time administration of any country today. The Sultan did raise the well-equipped army of his dreams which enabled him to fortify his kingdom against the Mangols in the North while he extended his dominions in the South. Historians tell us that the price-control measures ushered in an era of security for the crown and prosperity for the people.

THE DEPOSITOR AND BANK MANAGEMENT

BY

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The object of this essay is to point out an important deficiency in current banking legislation and practice and to suggest an outline of reform within the existing capitalistic structure.

At the outset, we must recognise that, as compared with other kinds of business, banking has two distinct aspects which are often conflicting. First of all, banking is a business, *i.e.*, a profit-making enterprise concerned with borrowing at low rates and lending at higher ones. The other services of a banker are of a subsidiary nature which we may ignore for our present purposes. In this process of borrowing and lending the banker largely risks other people's money. The following statement indicates the place of deposits and other forms of capital in some of the leading banks in India :[1]

Analysis of liabilities (Owners' and lenders' Capital)
(Figures in lakhs and for 1938)

	Paid-up Capital.	Reserves.	Fixed Deposit and Savings Account.	Current Deposit.	Percentage of Total liabilities. Paid-up Capital and Reserves.	Fixed Deposit.	Current Deposit.
Bank of India ...	100	108	828	896	10·8	42	47
Central Bank of India ...	168	80	1311	1791	6·9	39	54
Punjab National Bank ...	314	21	541	137	7·1	74	18·7
Allahabad Bank	35	48	778	299	7·2	67	25·7
Bank of Baroda	30	25	306	406	7·2	39·8	52·9
Bank of Mysore	20	26	142	105	15·4	48·4	36·2
Indian Bank ...	12·7	13	336		7·2	92·8	

The working capital of any bank consists of two distinct items: first, the owners' capital made up of the share

[1] *Vide* S. K. Muranjan: *Modern Banking in India*, Ch. VI.

amount, the accumulated funds of various sorts, etc. This item, as evident from the foregoing statement, does not form an appreciable part of the capital. In fact, it is more in the nature of the nucleus for starting the concern, and represents a claim to its profits. Secondly, there is the *lenders' capital* constituting the savings of the people, and comprising deposits of various types, of which fixed deposits form really the greater proportion. Of the current deposits, a part comes under this category, the other part being deposits created by the Banks themselves on the basis of the savings entrusted to their care. Thus, from the standpoint of the capital that is actually invested in the business, it is the lenders' or *depositors'* capital that is of greater importance. In other words, the banker deals largely in other people's money and takes risks with it.

The second but more important aspect of the banker's occupation is that he is the pivot of economic advance and stability. So long as capital is needed by business and such capital must be borrowed to a considerable extent, the bank becomes the foundation of other economic activity. This necessitates a different consideration in banking policy, *i.e.*, not merely the earning of profits but also the efficient purveying of capital so as to promote the economic and industrial development of the country. This constitutes the fundamental difference between banking and all other kinds of undertakings. Banks form the bedrock of all other activity and thus constitute a distinct entity in the economic structure of society.

Often these two aspects, *viz.*, bank as a profit-making business and bank as a social institution acting as the channel for the proper distribution and creation of capital, conflict, but the latter has always been recognised as of greater consequence. Banking legislation, control by a Central Bank and similar measures attempt to reconcile and regulate these aspects. But something more is necessary, since the depositor whose interests are largely at stake has no voice in determining the risk his capital is put to. It is true that bank crises are often the result of factors beyond the control of a bank, *e.g.*, wars or general depressions, but often, indeed, they are traceable to the unsafe loan policies of the banks themselves. The last Great Depression is ultimately due to such a risk taken by the American banks. The collapse of the Travancore Quilon

and National Bank in India is to some extent the consequence of its unwise loan policy. The undue risk taken in such cases would not probably have been shouldered if the depositors, whose interests were involved more than those of the shareholders, had a voice in the management. No doubt, the shareholders suffer in such cases both materially and in reputation but such suffering is largely a part of the game they play. But the considerably greater loss to the depositors and to society in general is due to no fault of the depositors. The root cause lies in their exclusion from the controlling authority of the bank.

It is this problem that has given rise to the question of social control and even socialisation of banks. The need and value of such socialisation appears obvious, and the tendency in recent time towards increasing state interference is a recognition of this fact by a hesitant individualistic society which dare not do what it ought to. I am, however, concerned now with an alternative reform from the depositor's standpoint. It is indeed strange that the depositor who has such vast interests in the bank should have no voice at all in the directorate deciding how his money is lent and to whom. This is most unfair and dangerous, unfair, because the person whose interests are ultimately involved is ignorant of the risk, and dangerous in that the shareholders can play with others' money. It is, therefore, necessary that the depositor should participate in the direction of the bank's policy.

Of the two different types of depositors, *viz.*, those who deposit in Current Account and those who deposit in Fixed, Thrift, Savings and other Accounts, the former are in a more advantageous position. Further giving them control results in practical difficulty. For, their money is withdrawable generally at any time on demand, and it is mostly for convenience, rather than as investment, that the current accounts are opened. Therefore, this class of depositors have not much claim to participation in control. It is the holders of *Fixed Deposits* that really matter and may be provided for in the first instance. This kind of deposit is not ordinarily withdrawable before the term expires, and during that period, the lender has entrusted his money to another and thus risked it.

If then, the fixed depositor is entitled to participation in control, how to provide for it? The analysis of the banks' capital given on a previous page indicating the

preponderance of the depositor's capital may suggest his representation on the directorate in proportion to his interests involved. This solution, although apparently equitable, is not really feasible, because the proportion of deposit to the owners' capital varies in different years and with different institutions but, obviously, representation cannot be permitted to change with every such variation in deposits and as between different banks. Otherwise, there would be confusion and instability. Moreover, the fixed depositors are naturally not venturesome enough, and their presence in the directorate is needed as a stabilising force. Consequently, a preponderance of the depositors would kill altogether the go-ahead business aspect of banking, *i.e.*, too static a policy would be followed. Proportionate representation, therefore, is inadvisable.

An alternative, both fair to the depositors and useful to the bank and the community, is a *fifty-fifty representation*. This would ensure the required stability without destroying completely the enterprising aspect of the bank. In order to prevent opening of accounts merely for the purpose of electing the directorate, *a minimum period of one year* may be fixed as a qualification for the exercise of the power of election. The period of deposit need not otherwise matter, and the depositors can exercise their right at every election. But all depositors, irrespective of the amount at stake, cannot have equal rights. *A minimum amount* of deposits may be prescribed as the necessary qualification as a guard against spurious opening of accounts. Further, as in the case of shareholders, a *classification* may be made *according to the amount of deposit* giving those with large deposits more votes and thus greater control. Finally it should be specified that during the tenure of a depositor as *Director*, he should continue to hold a *minimum prescribed deposit*.

If the principle of representation of depositors and the outline given above are accepted, the details could be worked out easily. We might here pause to consider the probable effects of this reform. Of course, the participation of the depositor in management is bound to have repercussions on the banking system but what exactly the consequences of such participation would be is difficult to prophesy as the effects would depend upon the extent of control, the development of the banking system, the

alternative opportunities for investment, the scope for businesses to approach the lenders directly, etc.

But a guess may be hazarded. Obviously a more cautious and conservative loan policy will result. Even the most enterprising depositor will be less adventurous with his own money than would be a shareholder with another's money; moreover, as a class, depositors are bound to be less venturesome in their loan policy. Not only, therefore, will the amount of loans be less, at least in the beginning of this system, but also the types of businesses financed will be different. Possibly, speculative enterprises like dealings on the stock exchange might be hindered. The consequences of this more cautious policy would naturally be a fall in the dividends to the shareholders both as a result of the depositors controlling the distribution of the profits and as a result of the natural fall in profits. Perhaps, a part of the profits may be claimed by the depositors themselves in the form of bonuses. Another likely consequence is the increase of deposits because the increased power of the depositors as well as the likely sharing of the profits may act as an incentive to further saving and may ultimately reduce interest rates. This factor may counteract undesirable results of the more cautious loan policy. Yet another affect may be the reduction in the loans that are generally utilized by the directors themselves. It is well known how the directors and their friends often borrow from the banks more than is either fair or safe and how the law had in recent times to limit such utilization of the funds by the directors. This object of the law is automatically realised under the reformed management because the depositors will act as a break upon any such policy, since they are themselves not interested in borrowing their own funds and would not naturally allow any unreasonable exploitation by shareholder-directors.

One undesirable consequence, perhaps, is the conflict in the directorate as a result of the dual control. The interests of the two sets of directors may not be identical and consequently a stalemate may result which might affect the prosperity of the bank and hinder its activities and utility as a financing institution. But such a possibility of conflict and stalemate is present even to-day where parties among the directors are not unknown. Another objection to the scheme may be that a loan policy,

specially in India, where industrialisation is a crying need, where banks have so far followed a very conservative policy of financing industrial developments and where a bold and venturesome lead is needed, would destroy all enterprise in the banks, thus considerably retarding industrial development. This is, however, only a partial truth since our economic development has been hindered by other causes than merely a conservative banking policy; and, further, a new type of industrial finance than the conversion of the present commercial banks to that purpose may be necessary.

Anyway one great advantage of the scheme is the stability it will ensure to the banks which by itself would justify the experiment.

Admitting that reform in banking legislation is necessary, the American system of deposit[2] guarantee may be offered as an alternative to the scheme explained above, but the inadequacy of this alternative to meet Indian conditions and to serve the purpose envisaged in this paper is pointed out below :

Two methods of protecting depositors are found in U. S. A., *viz.*, the holding of a percentage minimum against deposit liability and the guarantee or insurance of deposits. The latter is peculiar to America and was introduced in two phases. The crisis of 1907 gave rise to the State Guarantee System while the recent Great Depression led to the Federal Guarantee System. There were many varieties of the State System but of them the Oklahoma and Kansas plans were noteworthy and consisted of a compulsory system of mutual guarantee. By 1933 these plans were as good as dead and were, therefore, replaced by the Federal System in which there was a Federal Reserve Deposit Corporation owned by the Government, the Reserve Banks and the Member banks. All members of the Reserve System were compelled to insure with this corporation which assessed a small percentage of their deposit liabilities as premium.

Since the success of the latter is yet to be tested we might consider why the State plans failed. To start with, the scheme was essentially a type of insurance largely

[2] For the American Schemes *vide* Westerfield: *Banking Principles and Practice;* Bruce Dobb: *Guarantee of Bank Deposits;* and Bruce Dobb: "Safeguarding the Depositor," (*Annals of the American Academy,* January, 1934).

compulsory and partly under political control, but without any kind of state guarantee. The nature of the risk, its control and its concentration were not provided for. The mushroom growth of banks under inexperienced and incompetent management and the lax administration of banking laws aided the failure of the scheme. Finally, there was little of economic diversification to spread out the risks of lending.

Some of these defects are remedied by the Federal law which covers the whole country and secures a better diversification of economic activity and underwrite a better class of risks. But both in scope and in working it leaves much to be desired. As Bruce Robb puts it.,[3] "A blanket insurance thrown over all State banks may succeed for a time but *unless there is a New Deal in State banking*, period of great liquidation are almost sure to bring a concentration of loss that will shake such an insurance enterprise to its foundation." Further, the scheme reduces all banks to the same level and places a premium on unsound banking. It relaxes the vigilance of the banker and sweeps every type of risk within its fold and a one price policy forces the good bank to subsidise the poor one. Apart from these drawbacks, the object of the scheme was limited. It had the dual purpose of protecting the depositor and giving greater stability to bank credit. It was expected to restore confidence in the banks, release hoarded money and expand credit. Thus it was primarily a Recovery measure. Moreover, the plan was intended for a decentralised unit-banking structure with highly advanced deposit banking and currency traditions. Ours is not banking of the unit-banking type and, further, the scheme is difficult of application to a partially co-ordinated and largely mediæval system. Finally, while the insurance scheme protects the depositor, it is likely to encourage the banks to follow a free and perhaps unwise loan policy, for a present check on banks taking further risks is the fear of their inability to make good the deposits. If the insurance corporation guarantees the amount, the check on the banks disappears. A reorientation of banking policy in social interests will be necessary and if social control is not yet desirable, the reform suggested above appears to be the next best.

[3] *A. A. A.*, 1934—January, p. 60.

REGULATION OF JOINT-STOCK BANKING IN INDIA

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It is only in recent years that public attention in India has been bestowed on the need for regulating the ordered growth of our banking institutions. Though India had developed a banking system of adequate dimensions from very early times, her modern banking methods are essentially a product of the West. With the impact of the Revolutions in industry and commerce during the last century, her banking system had of necessity to keep pace with the march of progress in other fields of economic activity, in order to meet the ever growing demands made upon it. The result is that the banking structure of the country to-day is a compound of both ancient and modern, indigenous and foreign systems. This has made the problem of regulation doubly difficult.

The need for regulation, however, has been felt not so much in respect of our old indigenous system as the new joint-stock concerns which have sprung up all over the country. Upon the strength of these institutions, which pool together the scattered savings of the people and direct them to the scorched channels of our industry, trade and commerce, must ultimately depend the progress of our economic life. It is therefore imperative that their development should be watched and regulated on sound lines. But conditions in different parts of India vary greatly. While some provinces and States suffer from a paucity of banking institutions,[1] others suffer equally from a plethora of them. To the latter category belongs the State of Travancore, which in this field, as in many others, has its lessons for the rest of India.

[1] The Central Banking Enquiry Committee, 1931, reports that there is no joint-stock bank in the whole of Bikaner.

Growth of Joint-Stock Banking in Travancore.

Probably no part of India can afford a better illustration of the evils of mushroom growth and unregulated competition in banking than the State of Travancore. As late as 1917, when the Travancore Companies Regulation of 1092 M.E. was passed, there were only 4 joint-stock banks and one *nidhi* in the State. But by 1930, when the Banking Enquiry Committee reported, the position had radically changed. There were 264 Banks; "above a fifth of the number in the whole of British India."[2] Some of them had branches both in the State and outside. Of these, however, not one had a paid up capital of five lakhs of rupees, and only five had more than one lakh. The majority were small banks with a paid up capital of less than Rs. 10,000, the lowest minimum reaching down to Rs. 280 only. The reserve fund was nil in most cases. The declared dividends of these companies, often based on unrealised profits, were sometimes as high as 20% and seldom below 12%. There was a scramble for deposits at alluring rates of interest. The growth of banks was out of all proportion to the growth of the banking habit. In the pursuit of profits, the new banks often overtraded and built up a huge superstructure of credit on slender foundations. The structure was top-heavy and rotten at the core. It could not stand the strain of the depression in the Thirties. A crash was inevitable, and it came in 1938, when the apex bank, the amalgamated Travancore National and Quilon Bank Ltd., with a paid up capital of Rs. 23 lakhs and a net work of branches throughout South India, failed. This gave a rude shock to the confidence of the South Indian public in banks and banking in general.

The working of the Indian Companies (Amendment) Act, 1936.

The amendments to the Indian Companies Act in 1936 and 1937 were given effect to in Travancore as well by the passing of the Companies Regulation of 1114 M.E. (1938). Some of the provisions of the new Act relating to banking Companies have exercised a salutory effect on banking in Travancore.

[2] *The Travancore Banking Enquiry Committee Report,* 1930.

The golden rule that banks should confine themselves to strictly banking business as defined by Section 277 F of the new Act has compelled many of them to wind up. Most of the banks in the State were conducting *Chitties.* The Travancore Banking Enquiry Committee, 1930, found that, of the 195 banks working, 166 or 85% were conducting *Chitties.* In fact many of them were merely Chit Funds, which took the guise of banks in order to attract deposits. When this essentially risky and non-banking business was tabooed, many of the banks were forced to close down. The provisions insisting upon a minimum cash reserve, and a compulsory reserve fund and the filing of monthly returns, have also hit many of them hard.

The compulsory minimum of Rs. 50,000 as paid up capital before commencing business (Sec. 277 I), enforced by the Amending Act, has successfully prevented more mushroom Banks being born. It is noteworthy that, while on an average 24 banks were registered per year during the 12 years preceding the Act, not one has been registered during all the four years since the new Act was passed.

The net result of the Amended Act has been to eliminate mushroom and fraudulent banking companies and to call a halt to the rise of new banks. The failure of the T.N. & Q. Bank also accelerated the process of decline. 120 banks have gone into liquidation since the passing of the Act. The following table showing the position of banks in 1938 and the close of 1942 throws into clear relief the change that has come about in the banking structure of the State.

Year	Total No. of Banks	Banks with a paid up capital of			
		Rs. 5 lakhs & above	Rs. 1 – 5 lakhs.	Rs. 50,000 to 1 lakh	Below Rs. 50,000
1938	248	2	6	19	221
1942	117	2	4	16	95

The process of elimination is still at work and many more banks are practically defunct. Only 11 out of the 117 banks have declared dividends during the last year.

Proposals for an India Bank Act.

The working of the Companies (Amendment) Act during the last six years has brought to light its many shortcomings and inadequacies. The failure of the T. N. & Q. Bank has further helped focus attention on the need for a fresh examination of the whole question of banking regulation. The Reserve Bank of India itself has come forward with certain "Proposals for an Indian Bank Act" as early as 1939. Their draft bill, together with the explanatory memorandum, forms a weighty document, which raises issues of great importance for the future of banking in India. Certain aspects of these proposals alone can be touched upon here.

It cannot be disputed that the primary objective of regulation should be 'to safeguard the interests of the depositor so as to encourage him to save and to deposit his money with the banks.' This is particularly important in a country where capital is proverbially shy and fraudulent banks are none too rare. But this over-riding consideration should not, however, be allowed to cloud other objectives equally important, which regulation should seek to achieve. Such for example is the necessity for promoting the ordered growth of banks both in number and in strength, so that in the fulness of time our banking system will answer the growing needs of our industrial and commercial development. The safeguards provided for the security of the depositors should not be such as to hinder the business of banking by wooden restrictions, or discourage banking as an enterprise by impinging upon the normal profits of promoters and shareholders. This aspect of the question seems to have been overlooked in some of the provisions of the draft bill.

The definition of banking is a vexed problem. That adopted by the Companies (Amendment) Act has admittedly led to difficulties of administration and given room for evasion. The Reserve Bank has proposed that banking may be defined as meaning "the acceptance of deposits on current account or otherwise subject to withdrawal by cheque." Though this definition has the merit of being 'clear cut,' it is not comprehensive enough. The cheque system has not come into vogue so widely in India as in the West. Therefore, the proposal 'to connect banking definitely with the issue of cheques' will in the present conditions of India leave out many institutions which are

in the true sense banks. Further, the new definition makes evasion by small banks easier still, by the simple expedient of dispensing with the use of cheques. Hence it is desirable to include other forms of withdrawal also and define banking as "the business of accepting deposits on current account or otherwise, subject to withdrawal by cheque, draft or order."

The further restrictions on the commencement of business, proposed in clause 7 of the draft bill, deserve attention. It has been found in the case of several unsound banks, notably the T. N. & Q. Bank, that a net work of branches is more a source of weakness than of strength and that the opening of new branches is often in the nature of an S.O.S. for more deposits. The larger the number of branches, the greater is the vulnerability of a bank and the need for liquid assets. The Reserve Bank's proposal to fix a separate minimum of paid up capital for each place of business, subject to a maximum of Rs. 20 lakhs is a very necessary corrective. But their suggestion to raise the minimum paid up capital for the commencement of business from Rs. 50,000 to 1 lakh is likely to have too deterrent an effect on the growth of new banks, especially in centres where there is no scope for the development of large banks, but a small one could serve a useful purpose.

It is, however, in respect of liquid assets that the draft bill proposes important restrictions. It is notorious that many of the banks do not keep a fair proportion of their liabilities in liquid assets and that their reserve funds are often fully encumbered. Clause 11 of the draft bill makes it compulsory for every bank to keep a minimum reserve of 30% of their total time and demand liabilities in cash or unencumbered securities. This reserve is not to be used as a security even for advances by the Reserve Bank, unless an emergency is proved and the Bank Act is suspended. The obvious intention of this drastic measure is to prevent over-trading and the sacrifice of liquidity in the pursuit of high profits. Though this is in conformity with the best traditions of English Commercial Banking and the practice of the more solvent of the scheduled banks in India, it takes a different aspect when enforced by law under the threat of a penalty. It is likely to deter new banks from entering the field, and to cramp the activities of the existing banks to such an extent as to drive many

of them out of existence. It would be safer in the interests of banking as a business to attempt some other form of control.

This raises the important question of the minimum quantum of legislative interference in the working methods of banks in general. That these methods cannot be safely left alone has been abundantly proved by the adventurous undertakings and fraudulent practices of several banks which have brought themselves and the public to grief. Every sound banking institution must maintain a proper proportion between liquid and non-liquid assets, between time and demand liabilities, and between working capital and reserves. These proportions cannot be rigidly fixed. They will fluctuate according to the conditions of business. Legislation can only touch the fringes of the problem of banking regulation. It can provide certain safeguards against the depositors losing too much in case of failure. The more important problem of preventing such failures remains.

The stability of banks depends to a great extent on good management. Bank failures can only be averted by re-ordering the working methods of many of the smaller banks and some of the bigger ones too, and exercising some control over their advances. A great responsibility rests with the Reserve Bank of India in this matter. It will have to take up the role not only of the friend and colleague, but also of the policeman, when occasion warrants. It can organise periodical inspections to get into touch with the working methods of these banks. It can keep an expert staff of advisers with a view to co-ordinate their policies and methods. The vastness of the country and the multitudinous character of these banks, big and small, will undoubtedly present great difficulties. But a certain amount of decentralisation of control will have to be effected. The smaller banks in the different provinces and States can be grouped under the scheduled banks working in those regions. The Reserve Bank can directly control the scheduled banks and through them the smaller banks, by a policy of making advances and accommodation to these banks dependent on conformity to sound banking practice. A proper co-ordination of the banking system on these lines can alone place it on a sound footing and enable it to attain its full stature in the economy of India.

BANKING REFORM

With special reference to the draft Bank Bill proposed by the Reserve Bank of India

BY

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The amended Indian Companies Act of 1936 reveals the policy of the Central Government incorporating provisions for better regulation of Banking Companies in India. A special Bank Act, in the opinion of the Government, was not an "immediate prospect" and so the adoption of such a course. The Indian Companies Act of 1936 was a distinct step towards the progress of banking regulation in India. But the failure in 1938 of the Travancore National and Quilon Bank which had numerous branches all over Southern India and even extended its operations to Northern India roused uneasiness as to the soundness of the smaller banks. The Reserve Bank of India, submitted in November 1939 to the Government, a scheme containing certain proposals to guide and control Joint-stock banking in India. These proposals were submitted in the form of a draft Bank Act.

The draft Bill defines banking in the following words: "Banking means the accepting of deposits on current accounts or otherwise subject to withdrawal by cheque."[1] This is a simple definition of banking and banking companies as it meets the difficulty of including in a definition of banking those smaller institutions which refuse to comply with statutory provisions of the Indian Companies Act and yet describe themselves as banks. As a minimum amount of capital is essential for the successful operation of banking, the proposal of the Reserve Bank that banks with inadequate resources should not be allowed to open up branches in the larger towns is a distinct improvement because inefficient, under-capitalised and ill-organised

[1] Clause 2(*a*) of the Draft Bank Act.

banks constitute a serious menace to the progress of banking on sound lines.

To ensure an adequate capital structure, the draft Bill makes the following proposals: A banking company must have to start with a minimum paid-up capital of Rs. 1 lakh but a minimum paid-up capital of Rs. 5 lakhs if it does business either at Bombay or Calcutta and that a minimum paid-up capital of Rs. 2 lakhs if it does business at places with a population of one lakh. Moreover, a bank possessing a paid-up capital and reserve less than Rs. 20 lakhs will not be allowed to operate outside the limits of its state or province.

The proposal that the subscribed capital of a bank should not be less than 50% of the authorised capital and the paid-up capital should not be less than 50% of the subscribed capital definitely stops the scandal of issuing prospectuses with a very large authorised capital and then commencing business irrespective of the amount subscribed or paid-up.

One restriction placed on bank investments is that 30% of their demand and time liabilities shall be held in the form of cash or unencumbered securities. This is made to prevent over-trading thereby safeguarding the interest of the depositors. In the case of banks incorporated outside British India, they are to maintain 75% of their British Indian liabilities in the form of assets in British India. British Indian depositors are thus protected against banks incorporated outside India. The experience of banking crisis in 1938 has led the Reserve Bank to suggest important provisions for simplifying the liquidation proceedings so that during a bank failure, the depositors may be paid off with the minimum delay.

One object of the draft Bill is to maintain liquidity of funds by the banks by immediate conversion of a certain percentage of their assets into cash.

These, in brief, are the main proposals of the Reserve Bank. It will be seen that the objective behind these proposals is admittedly limited. Even as such, they invite certain criticisms.

The minimum paid-up capital required for the floatation and working of a bank should make it impossible for unduly small institutions to operate. No doubt; but the minimum should be determined with reference to the stage of banking development in relation to the economic

structure of the country. It should be neither low enough to encourage wild floatations nor large enough to discourage the existing banks to develop or make it impossible for new ventures. The soundness of a bank does not depend upon the amount of capital alone. So the minimum paid-up capital Rs. 50,000 laid down by the Indian Companies Act may not be "too low." It depends.

Moreover, an undue importance has been given by the provisions requiring a higher amount of capital in the case of banks having offices in more than one province because it over-emphasises the administrative boundaries rather than the economic relationship existing between the adjacent provinces or states. The division into administrative boundaries should not be carried to the extreme because that will hamper the healthy and elastic growth of trade, commerce and industry. Once liquidity of funds is ensured, capital requirements should not be pitched so high as to force the banks to go out of existence.

Another provision of the proposed Act, namely, fixing by law the maintenance of 30% of deposit liabilities in cash and Government securities may be something revolutionary in banking legislation. But a mere keeping of 30% of deposit liabilities in liquid form alone will not save a bank from trouble if the remaining 70% is invested or locked up in dubious securities. This 30% of deposit liabilities is to be kept to protect the depositors but this is without any foundation as it may on the contrary create a false sense of security where none in fact may exist. If on account of false rumours there are sudden withdrawals must the bank refuse to pay its depositors and convert a mild run into a panic? Legislation which is likely to jeopardise the growth and development of honest banking should therefore be avoided.

Again, so long the Reserve Bank by the third schedule of the Reserve Bank Act of 1934, empowers the Imperial Bank to act as its sole agent, no scheduled bank is likely to get a chance of acting as agent for Government and local authorities. It is difficult to appreciate why strong and solvent scheduled banks should not be given the right to handle the postal savings bank deposits thereby reducing the huge cost of running the department. In the U.S.A. postal savings deposits are kept in the Federal Reserve Banks or member banks where there are such banks.

Banks receiving postal deposits should of course furnish ample security for such deposits.

Again, since Sec. 55(1) (A) of the Reserve Bank Act extends the provisions relating to Scheduled Banks to persons and firms, not being scheduled, operating in British India in the business of banking, there should be no differentiation in the matter of maintaining cash reserves.

The shroffs may also act as the agent of the Central Bank specially in those areas where there is absence of banks. These shroffs are at an advantage because under the present conditions banks in India cannot hope to get into sufficiently close touch with the affairs of the vast trading community all over the country so that they are at present unable to grant accommodation directly to more than a few of the bigger traders. The shroffs are, therefore, indispensable middlemen. Unless the shroffs and the indigènous bankers of the city be brought within the ambit of the modern banking system and induced to use modern credit instruments, no real banking co-ordination will be achieved. The modernisation of agricultural operations is a condition precedent for the provision of an adequate system of finance. The Reserve Bank of India maintains an Agricultural Credit Department thereby admitting the necessity of co-ordination between commercial and agricultural credit. This co-ordination is only possible, by evolving rural credit instruments acceptable for discount. We will deal with it a little later.

Bank failures caused since 1913-14 and specially the crisis in South India in 1938, it is said, created uneasiness and therefore nervousness among bank depositors as regards the position of other local banks. Bank failures cause shock to public confidence and a set-back to habits of investment injuring the industrial and commercial development in the country.

But bank failures did not demonstrate the incapacity of Indians to conduct the modern banking system. Such failures have been a common feature even in U.S.A. and England. These failures only emphasise the necessity of meeting the risks of crisis by improving the machinery of banking by a cautious selection of Directors, Auditors and the General Staff. The bank failures demonstrated the necessity for the establishment of a real Central Bank to guide the general banking policy of the country during a

crisis and to steer it in normal times. The Reserve Bank has failed to remove this defect of the banking system. The South Indian banking crisis amply demonstrated this and revealed the desirability of the scheduled banks to maintain a closer touch with the Central Bank. The Central Bank should in such times of crisis make adequate advances to deserving and approved institutions without delay. But there is a difficulty in making such advances, as there is absence of a sufficient quantity of rediscountable assets with them. The banks in India can rediscount only the Treasury Bills with the Reserve Bank and Sec. 17 of the Reserve Bank Act has been so far a dead letter. So the banks hitherto derived no benefit from the Reserve Bank.

Bank failures emphasise the making of suitable provisions for instituting a course of thorough practical training for bank apprentices. Wide publicity is equally important to enlist intelligent public sympathy and supervision on the management of the banks. A sense of responsibility to the public may be ensured if there are representatives of depositors to the bank.

The definition of banking as given in Clause 2(a) of the draft Bill is open to improvement. It omits to make any provision for the indigenous banks, shroffs and money-lenders to facilitate their absorption into the banking system of the country. A bank may receive deposits but it must also lend money and capital and in the modern sense the true purpose of banking is to supply credit in some form or other. The money-lenders and most of the indigenous banks and shroffs do not receive deposits and withdrawals against deposits are in cash and not by cheques. The money-lenders, shroffs and indigenous banks, thus come in the picture because they represent more than 90% of the whole of banking and credit machinery of India. But they are outside the system of high finance. Indigenous banks are mostly confined to towns and loan offices supply very little credit to the agriculturist except very indirectly so that the bulk of it is supplied by the mahajan and co-operative banks. The co-operative credit touches, as yet, only a fringe of the huge problem of rural indebtedness. So far as agricultural credit is concerned, the rural money-lenders do business with their own funds thereby escaping any possibility of control by the Central Bank. But, rural credit is the most important form of

credit in India to-day both from the point of view of total volume and of requirements and that over 70% of the people are interested in it. The problem of co-ordination of the existing rural credit agencies may be a very difficult problem as is proved by the inability of the Bengal Banking Enquiry Committee to make any positive suggestion of such a co-ordination. If a Central Bank works independently of rural finance, its utility will be restricted to a microscopic section of the entire population. Banking rationalisation in such circumstances will lose much of its importance as the economic structure of the country will rest on insecure foundations as the majority of the people will still be under an oppressive credit system. An underlying cause of the essential instability of the credit structure in the country is provided by the instability of the basic source of the country's wealth, namely, agriculture.

The co-operative system acts as an agency for the supply of short-term credit to the agriculturist. Since the resources of these societies are meagre, they should be supplemented by bringing the entire co-operative system within the ambit of Central Banking.

But apart from granting certain overdraft facilities mostly against Government paper to some Provincial Co-operative Banks, the Imperial Bank of India, as the sole agent of the Reserve Bank, has not yet touched the problem of agricultural credit. The facilities that are granted by the Imperial Bank of India and the Scheduled Banks are either of cash and credit against produce or discounting of bills to approved commission agents. Any benefit from the bank accrues to the commission agents so that the lot of the agriculturist remains as miserable as before. The Reserve Bank of India thus does not adequately recognise the necessity for financial accommodation to co-operative banks as it fails to issue emergency currency against approved co-operative paper in a stringent money market.

The co-operative movement has, as we already know, touched only a fringe of the problem of agricultural finance so that the money-lender still happens to be the friend of the agriculturist for unproductive debts. Unproductive debts represent a phase of social pathology, so that the additional resources need to be supplied for a better and more generous provision of credit facilities.

Agricultural produce has been brought within the ambit of the U.S.A. banking system. The experience of

the U.S.A. may provide useful guidance for reorganising agricultural credit in India. If such a scheme is to be adopted, then the Provincial Governments may have to undertake legislation on lines of the Federal Farm Loans Act in America. Land Mortgage Banks, hitherto almost unknown to the Indian Banking System, should be established to advance loans to the agriculturist. These land banks should be under Government control and the capital should be initially subscribed by the Government. The funds, if necessary, should be obtained by issuing tax-free debentures under conditions specified by Government. The Provincial land banks may operate through a Central Agricultural Loans Board which will directly be under the Central Bank.

The Indian money market has its own peculiarities and difficulties, the greatest of which is the absence of a documentary Bill market and Licensed Warehouses. Licensed Warehousing system is a necessary part of the development of banking particularly in an agricultural country like India.

To mobilise effectively the capital resources of the country and to create any kind of unitary control over its credit organisation, the indigenous banking system must be brought in organic relationship with the Central Bank of the country.

MONOPOLISTIC INFLUENCES IN CAPITALISTIC ECONOMY

BY

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At the outset it is necessary to commence with a vivid description of the essential features of perfect competition which is supposed to be largely characteristic of Capitalistic Economy. Under perfect competition there is no restriction on the movement of factors of production from occupation to occupation in search of the highest reward. Besides no single unit of production can affect the price of a thing bought or sold by its own action, and consequently there will be one uniform price prevailing in the market. Such a price would be equal to the average and marginal cost of a firm because under perfect competition firms tend to be of the optimum size; their average cost being at its minimum and consequently equal to the marginal cost.

Such a perfect competition yields certain advantages and also suffers from some defects. The output would be maximised and a change in production will not benefit anybody without affecting others. Each firm would automatically tend to be of the most efficient size. But commodities most beneficial to consumers may not always be produced and the cost of providing them may often be lesser for the community than that to the individual producer. However in actual life such perfect competition rarely exists and imperfections of various degrees have taken its place and have accordingly modified the theoretically accepted functioning of the copitalistic economy.

Monopoly and Imperfect Competition.

Monopolistic control is largely prevalent in the capitalistic economy due to various factors. It may be due to the ownership of certain essential raw materials in one or two hands, or due to the imposition of a state restriction on the number of producers. Further the optimum size of the producing unit may be larger than necessary

for the prevailing demand, in which case competition is not profitable. Finally the capital outlay required for starting an industry may be so large as to dissuade potential competitors from entering the business. Apart from the reasons adduced above for limiting the number of producers, there may also be market imperfections due to the existence of transport costs, the lack of knowledge of consumers, and real or imaginary differences in the quality of the product. Thus each producer may have a semi-independent market protected by the cost of transport of his rival's goods and by the reaction of the consumers. Under imperfect competition a producer will not employ a factor up to the point at which the value of its marginal product is equal to the price paid for the factor, but will stop at some earlier point when it is still in excess of it.

Imperfect competition gives rise to discrimination in prices. Price discrimination by a monopolistic seller may take various forms based on different criteria; the capacity to do so depending upon the power to isolate markets and to keep them apart. The methods of discrimination will depend upon the circumstances of the market and are subject to alteration according to changes in the environment. For instance the Milk Marketing Board in England sells milk for consumption at a higher price than for manufacture into things like cheese, butter, etc. This policy is to guard against the competition of imported manufactured products of milk. If for some reason the importation ceases, such discrimination would become superfluous. Just as sellers may discriminate by isolating markets, similarly purchasers may also buy at different prices favourable to themselves by splitting up the markets for purchase. This is especially feasible in respect of factors of production which have only a few purchasers and high specificity.

Capitalistic Imperfections under Monopoly.

Monopolistic influences tend to disturb the normal equilibrium of capitalistic economy attained under competitive conditions. Under monopolistic conditions the reward for factors of production will be less than the price offered for their marginal products. Besides a shifting of factors of production for the equalisation of their marginal products is not likely. It is also likely

that under the influence of monopoly firms may not necessarily reach the optimum size of production and there may be no opportunity for concentrating output on the correct number of firms. But to compensate against these disabilities certain wastes of competition are avoided under monopolistic conditions, as for instance, the expenditure on advertisement encouraging irrational buyers' preference. Expenditure on cross transport may be saved and specialisation and standardization of products may be encouraged.

Various devices have been applied for a control of monopoly, but no single device is capable of yielding all the desired results. Anti-combination laws cannot cure the imperfection of the market for the sale of a product even though they may render combinations illegal. Educational measures may be adopted to impart fuller knowledge to consumers so that their irrational preference may be diminished and the expense on advertisement reduced. Still if the number of sellers are small they can influence prices. Rationalization is even better than educational measures for a direct removal of wastes but it may have a tendency to increase monopolistic control. Subsidies may be granted and taxes imposed to bring about a better distribution of factors of production in a state of monopoly but there are practical difficulties for making an accurate estimate of the marginal product of factors. It is also suggested that a desired redistribution of resources may be attained through a control of prices by the state. However a perfect readjustment of the capitalistic economy may not be feasible by the adoption of any of the foregoing devices.

Influence of Monopoly and Consequent Structural Changes.

One of the features of the structure of modern industrial organization is an attempt to socialize such of the industries which have a monopolistic element, in order to equalize the prices paid to factors with their marginal product. It is believed that industrial efficiency is not likely to suffer as a result of socialization because the salaried manager of a socialized industry is not worse than his *confrère* in private industry. The pricing system can continue even if industry is socialized so that the factors of production may be offered an appropriate price by the competing industries. Besides the consumers'

resources may be put to the best possible use by maintaining a system of prices for consumption goods and factors of production and providing for the movement of factors to maximise output.

To attain the above objectives several collectivistic experiments are attempted within the capitalistic economy. One such experiment and perhaps the most successful is the creation of the Public Corporation in England during recent years. This modern device of the Public Corporation in England consists of the Port of London Authority, the Central Electricity Board, the British Broadcasting Corporation, and the London Passenger Transport Board. This form of organization of the operation of Public Utilities is gaining currency in all the important European countries. In the words of Gordon, "While the widest differences of opinion remain as to the proper scope of public enterprise, there is well-nigh universal concurrence on the utility of the Public Corporation as a form of organization where such enterprise is adopted."

The Public Corporation obviates several of the serious objections that are normally levelled against the appropriateness of government bodies to act as organs for the operation of business. For instance the Central and Local authorities are not specially chosen for intervention in industry and as such no special business competence can be expected of them. The fluctuating nature of political bodies may also interfere with the sustained application of a business policy. It is also likely that Government agencies are liable to injurious electoral pressure. Finally the administrative areas are determined on non-commercial considerations and as such are unsuitable for operating an industry. The optimum size of an industry may differ from the scope of an administrative area. In such an event Government intervention would mean uneconomical operation of the plant. But most of the above objections are overcome by the device of the Public Corporation and therefore the future of all socialistic experiments within the framework of capitalistic economy should depend upon a widespread adoption of this novel form of business organization.

The Public Corporation also obviates certain other objections of a political nature against the Public operation of industries. The political power of the central or

local authorities may permit them to maintain inefficient plants through a manipulation of the tax revenues. A Government body may also unduly restrict the taking of risks and the launching of new ventures since their political interests are at stake. Besides Government operation may also interfere with the most efficient size of the business unit. The Public Corporation is free from all these defects since it is entirely non-political in character. It has to earn a profit like a private commercial concern and has perforce to maintain efficiency. Regarding the optimum size of the operating plant the Public Corporation has full latitude to approximate towards it, since it may transcend the local political area. For instance the Central Electricity Board through its national grid controls the transmission system over the whole of England.

Economic and Social Benefits of Monopolistic Control.

In respect of technical efficiency of monopolies inductive inquiries do not yield any definite results. But from a deductive standpoint certain generalizations are possible. Certain economies are associated with monopoly through its approximation towards the optimum size of production but here the monopoly is not a necessary condition of such economies as the optimum size may be reached even under competitive conditions. But in respect of technical efficiency a monopoly of the fused and co-ordinated type unlike the ordinary forms of short-time monopolies based upon quotas and restriction of output, is superior to competing firms where competition is unlikely to be exceptionally perfect with all the economies of large scale and of specialization of production. On the other hand a monopoly is condemned for being more conservative than competing firms in the introduction of new products. This is a criticism which is not always well founded because competing firms often introduce changes in the product purely for the sake of change which do not always cater to the long period satisfaction of the consumer. A certain degree of standardization is necessary in the interest of industrial progress even if it should sacrifice the momentary impulse of the consumer, which should not be considered as paramount.

Problems of management involving financial control and entrepreneuring which are not amenable to decentralization are likely to tax the abilities of the managers

to a greater extent in a monopoly than under competition due to its size. But a greater uncertainty always confronts a competing firm and to that extent a monopoly may involve less difficult decisions than a firm under competition. Therefore, in some respects the problems of managing a monopoly may be simpler though in others it may be more difficult, leading to a laxity of organization and a conservatism of technique. From the point of view of raising capital and reinvestment of profits in business a monopoly is in a highly advantageous position which is not shared by competitive firms even if they are equally large in size.

In respect of buying materials and equipment certain advantages belong exclusively to a monopoly. Sometimes a monopoly may be in the position of a monopolist being the sole purchaser and capable of dictating its own price and diverting all supplies to itself. On the other hand marketing costs may sometimes be lower under monopoly due to the elimination of competitive advertising. But it is not always safe for a monopoly to introduce a drastic cut in this direction as potential competitors should be kept out.

Therefore it might be said in conclusion that much depends upon the form of monopoly that is to be introduced and the degree of competition that preceded it. If a perfect monopoly succeeds an imperfect competitive condition it is likely to be more efficient. On the other hand when a restrictive monopoly succeeds perfect competition the monopoly would be less efficient.

CAPITALISM IN FLUX: RECENT CHANGES IN THE STRUCTURE OF CAPITALISM

BY

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I

Structural changes in capitalism have been taking place through processes which are inherent in capitalism itself and are a confirmation of the Marxian theory of negation of the growth of the antithesis within the shell of capitalistic thesis. The growth of monopolies, the amalgamation of banks, the increasing of the hold of the financial institutions over industries, the ramifications of monopolies in international spheres, the intensification of international conflict through the scramble for market and raw-materials, the adoption of restrictions on an international scale and more than other features the intractable phenomenon of recurrent and progressively intensified trade-cycles culminating in what is virtually the crisis of Capitalism itself are all the well-known developments, the inwardness of which has been laid bare by the Marxian critics of capitalism and thrown into such lurid relief by the tragic contemporary events. The Marxian criticism may not have been borne out in its entirety. In several significant respects the predictions based on this line of argument have not come true. The standard of living of the worker has, for example, risen and not fallen in the most developed capitalistic countries and the middle class, instead of being crushed out of existence by the growing 'polarization' of economic life, has increased in size, importance and social significance and has shown unexpected vitality as the spearhead of Re-action in all countries in which Fascism has seized power and used it ruthlessly with such deadly effects. These apparent deviations, however, do not materially affect the validity of the argument or change the meaning of the historical process which has been at work. These and some other developments merely indicate the necessity of using the Marxian analysis, as every other illuminating

generalization, as an instrument of thought and a general guide for unravelling the tangled skein of actual events and not as a dogma into the framework of which every important development has to be fitted or made to yield an exotic meaning to sustain and confirm the faith of true believers.

It is tempting to follow up the point of the above paragraph and review the recent development of capitalism as a process of rapid decay and disintegration. But apart from the fact that there has now become a well-worn theme owing to its having done duty as a stock argument the polemics about the inherent instability of capitalism at all levels of thought, it is not safe to assume that the shell is about to burst asunder and start the trend of events leading to the ultimate withering away of the state. Capitalism has, as the events have shown, plenty of fight left in it yet and it may, in spite of the stresses set up by the total war, rally enough strength even after the war to frustrate the strategy of many a social storm-trooper, and behind the facade of spacious phrases carry on its own scheme of things in all essentials for a good long while. Moreover, this theme, even if it can be usefully worked out as an essay in interpretations and anticipations, cannot be developed with any degree of success within the narrow limits of a short Conference paper. Even for an audience of initiates, which the Conference may be assumed to be, the theme requires much fuller treatment than what is possible in these few pages.

II

The available space may, however, be used to some purpose by referring briefly to a few structural changes which in spite of being incipient in some cases, indicate a change of functions rendered necessary by changes in the organic needs of the operative economy. I shall start with a reference to the changes in the working of the system of currency and exchange. The changes that have taken place are a matter of common knowledge. Gold has ceased to be the controller and regulator of currency and credit. The old theory and practice of reserves have been superseded and are now only of historical interest. The Bank Rate has not only become obsolete as an instrument of credit and currency control but has also lost its

significance as an index of the trend of the forces at work. The central banks being without quantitative indices, with reference to which they can form their policy of control, have had to fall back upon their judgment of what is called for by the needs of the situation, to use direct methods of control, and have sought to enforce it by discrimination based upon interpretation rather than through reliance upon independent objective tests. The currency and credit needs of the community have now to be gauged not merely through index numbers of prices and its reciprocal, but by unravelling the mystery of the whole economic complex as indicated by the state of employment, the quantitative and qualitative changes in production, the need for expansion or restriction of investments and more than these, the desirability of maintaining and increasing the purchasing power of the masses for keeping the wheels of industry moving and preventing social distress. The constituent elements of the complex cannot be summed up by any mathematical formulæ or mechanised indices and their relative importance must be a matter of policy and cannot be objectively assessed and determined. These facts make the whole position extremely obscure and empirical rules suggested by all these variables and their inter-relations, rather than any tenets of any currency doctrines, have, as a matter of necessity, to be made guides to action. The practice is, as a matter of fact, in advance of knowledge and the conceptual formulations, like the income theory of prices and Keynes's theory of interests, are attempts, not yet successful, to give a meaning to and derive lessons from the involuntary tempo of events and the currency authorities are in most cases powerless to shape their course or base their policy on any intelligible anticipations.

The pre-war exchange restrictions and the operation of the system of off-setting balances, generally known as exchange control and exchange stabilization funds, are changes of the same order, *i.e.*, they have also been developed in response to urgent practical needs and not devised on any well-thought out principles or maxims of currency theory. But they and the other practices referred to in the foregoing paragraph cannot but have a profound effect on the future of the currency system in spite of the fact that they are means of adjustment to needs the nature of which is not even half understood and the process of adjustment is fumbling and influenced by many

extraneous considerations. Changes in the working of the currency system must have a profound effect on the working of the price system. The price system, or to use the phrase more commonly used to indicate its functional importance, the mechanism of prices is the most cardinal feature of capitalism and is regarded by its ardent advocates as its most redeeming feature, the custodian of economic democracy, the ballot box for the millions of voters and the means of rational allocation of resources in immutable regime of inescapable scarcity. Not only will the piece limits be subject to influence of new factors and therefore vary for reasons hitherto regarded as having no bearing on the question of the value of money, but the very idea of having 'neutral' money will have to be greatly modified owing to the introduction of new technique and purpose in the 'management' of money. Exchange control, of course, carries the purposeful manipulation of currency much further, introduces the scale of priorities in imports and exports, subjects capital movements to public control and makes public interest the decisive factor in the regulation of these movements. Control of investment cannot be confined to external investments. Its extension to internal distribution to capital resources follows as a matter of course and will not merely be intended to secure equality of investments and savings. There is no method by which the control of aggregate investments can be secured without introducing at the same time control of particular investment. According to Keynes the two are and can be independent of each other. The State 'is to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them' and private interest is 'to determine what in particular is to be produced, in what proportion the factor of production will be combined and how the value of final product is to be distributed among them.' The state of full employment which according to Keynes is to be the object of the control of aggregate investments, depends very largely upon 'how the value of final product' is distributed among the factor of production, and that involves control not only of volume but also of direction of employment, control not only of basic rate of rewards to those who own instruments of production, *i.e.*, the rate of interest, but also of basic rates of rewards to those who use them, *i.e.*, the rates of wages of labour of all grades and

types. Decentralisation and the play of free interest by which Keynes lays so much store, are important advantages and in the solution of the problem of unemployment the interests of efficiency and of freedom have to be duly safeguarded; but the right way to realize these advantages and provide these safeguards is not to control the aggregate and insure absence of control of the particular investments. The two forms of control are inseparably linked together and have to be included in all schemes of currency and exchange control.

Apart from the question of investments, the point which matters is that the measures of currency control, which are in operation, have had a far-reaching effect on the working of the entire mechanism of prices and in them are implicit purposes and methods of price control which cannot but affect seriously the structure of capitalistic economy. These measures are, as already stated, measures of sub-conscious or at least semi-conscious adjustment to situations beyond the control of currency, authorities, situations which have had important effects in the realm of currency and exchange but the currency factors were neither their fundamental causes nor set limits to their consequences and repercussions. The full significance of the recent change in currency practice can be understood only by regarding them as a part of the integral process which insensibly but surely have been changing the basic facts of economic life.

III

Another development, which has been is progress for considerable time but has been greatly accelerated in the last decade, and is of fundamenal importance in its bearing upon the nature and function of capitalism, is also well known and the Beveredge plan in Great Britain has given to it a new meaning not only as a culminating point of the past but also a promise of the future. National minimum, living wage, the endowment of motherhood and family, social insurance against unemployment, sickness, old age and death are not new conceptions. They have been in the air for over six decades and influenced practical policy in Germany, Australia, France, Great Britain, U.S.A. and, of course, the U.S.S.R. In most countries their practical effects have been confined to a

limited range and even within it the adoption of these measures have been dictated more by fear than by social vision or appreciation of the vital needs of the community. But gradually the idea has gained hold on the minds of people that labour is not a commodity and its human needs have to be made the first charge on the resources of the community. Freedom from want is, it is now recognised, the basis of all freedoms and must be the foundation of the social structure. If this war or rather peace aim animates the whole social policy of the nations after the war, it will, it is obvious, not merely be a great gain from the humanitarian point of view, but also entail basic structural changes in the economic system. In the countries in which security services have been developed, the process has already commenced, but has to be carried very much farther before it produces its plastic stress on the practical working of social economy.

The social significance of these changes lies in the fact that it means large-scale application of the principle of distribution according to needs and very material modification of the principle of distribution according to works. Distribution according to needs is a maxim of public finance and the growing encroachment of public over private finance is itself a change of real importance from the operational standpoint of the economic system, but if social security at a level determined by valid social ends becomes all-pervasive fact of economic life, that would change altogether the underlying assumptions of the system and alter its character. This change cannot be brought about even in the richest countries of the world without fuller and more efficient utilization of the productive resources, and that in itself would necessitate rationalization not merely of individual industries but of the industry as a whole, *i.e.*, elimination of waste, inefficiency, lack of co-ordination and overlapping of spheres of activities. The change also involves the adoption of social costs as the criterion of the worth-whileness of economic undertaking and no industry would have the right to function unless it can provide the guaranteed minimum of wages and living conditions to all its workers. In the regulation of exports and imports the maintenance of the accepted minimum would become an all-important factor and determine the terms of trade and the nature and range of international economic relations. These changes, it need

not be added, have not so far been introduced because the process of distribution according to needs has not gone far and their impact on the working of the economic system has not been appreciably felt; but if distribution according to needs becomes a fact of increasing importance in economic life, it will not only maximise social welfare but make reorganization of industry on lines, which may be in accord with the human needs of labour, an unavoidable necessity.

So far the new tendencies have only produced crude results in the exclusive national economic policies and given us an outcrop of restrictive measures in the application of the policies of protection, immigration, racial discrimination and narrow, militant trade unionism. But protection of the standard of living of the people has to be made a decisive factor in the economic life of all peoples and determinant of international economic relations in a rational co-operative economy. This aim has been consciously pursued in the working of the International Labour Organization in spite of its inherent limitations and been given an important prominent place in its plans of the post-war reconstruction. In the ineffectively enforced codes of the New Deal, the constructive aspect of the standard of living concept has also received recognition and has, of course, influenced the national minimum and other social-security legislation of all countries. This trend is the result of the interpaly of a number of forces; but if its logical implications are clearly understood and fully worked out, it can produce far-reaching results in the whole domain of economic life. Restoration of labour to its human dignity is the most important corrective of the glaring deficiences of the capitalistic system. Degradation of labour, which has taken place owing to labour being treated merely as a vendible commodity, is the most damaging charge against the capitalistic economy, and if it is removed or redressed by measures intended to 'humanise' production in the broadest and deepest sense of the word, it will bring about a profound change in the whole set-up of economic life and therefore involve fundamental structural changes.

IV

The third development which I propose to refer to very briefly in the short review of structural changes, is

the evolution of autonomous public corporations as a form of business organization. This form of organization has developed in England and other countries for the management of public utilities like electricity, transport, waterworks and has received the greatest theoretical support even from the conservative advocates of what is called 'self-government' in industry, because they expect to protect themselves against the clamour for 'socialization' by taking cover under the specious plea of each industry being managed as an autonomous authority. In the countries in which corporations have become important, they have led to the development of 'national Capitalism' and provide for monopolies a facade behind which they screen themselves against public criticism and scrutiny. In spite of the form of organization having been used as a measure of self-protection by the giant private corporations, it has in it the seed of a great development in which the end, of efficiency and commonweal can be combined and pursued by entrusting the administration of industries to the men who have specialised in and are qualified for them and which they can manage and develop as public functionaries without any meddlesome interference from unimaginative and routine-dried bureaucrats or amateurish and wire-pulling politicians. The conception of each industry being regarded as an autonomous public trust in the hands of those, who know their job and can be made to do it well with a full sense of social responsibility, is a very fruitful conception which is, it is almost certain, bound to play a constructive rôle or great importance in all schemes of large-scale re-organization of industry as a social function. This conception is implicit in syndicalism and was, as is well known, given great prominence by Guild Socialists, like Cole, Orage and others in the early twenties. The Fascists and semi-Fascists advocates of corporative economy have exploited it fully for their ends, and the impulse behind the formation of the various corporations in England and elsewhere referred to above is the desire both to maintain high standard of efficiency and realise social good, though, as already stated, in practice the vested interests have turned the opportunity to good account by striking favourable bargain for themselves and for keeping their own position and power practically unimpaired. This idea also is the underlying conception of Soddy and others in their schemes of contributive society. The repeal

of anti-trust laws under New Deal in the U.S.A. and the vesting of the integrated industries with power of fixing prices, regulating output and sale, of pooling knowledge and experience, of distributing markets on a regional basis are all steps in the same direction, though in this case again Big Business has done itself well out of an experiment born from the union of somewhat inchoate idealism and the imperative necessity created by the Great Depression. The Tennese Valley Project under New Deal is even a more striking illustration of an autonomous authority entrusted with the public function of developing a backward region with great possibilities. Central banks in most countries have been constituted and developed with the same purpose; and in spite of their having been used as instruments of reactionary politics owing to the hold of financial oligarchies over them, they are meant to realise functional autonomy within the limits set by a system worked by and in the interest of a minority created and obsessed by money values.

The problems created by the formation of public corporation are many and most of these remain unsolved. The most important among these is the problem of the appointment of their directors or governors who must be experts in their own business, possess a high order of ability and yet be imbued with the highest ideal of public service. The method of nomination which has been most commonly used for the purpose has the disadvantage of being open to the charge of political nepotism, and its utility is limited owing to the choice in practice being limited to the men who have come to power under a system which puts premium on acquisitive and anti-social traits of personality. The problem of recruitment of personnel, of scales of remuneration, of relations with the consumers and of price and investment policies have all been tackled with the same desire for reducing the range of change to a minimum and for carrying on 'business as usual.' In the circumstances under which these corporations have been created or evolved these are perhaps unavoidable limitations; and yet it should be obvious that public corporations are *suis-generis* and their utility and realisation of their potential value as a public organ of economic administration must depend upon their developing norms standard and administrate technique of their own. To the extent to which they succeed in achieving this object,

they must change the major premises of their policies and work on assumptions very different from those which have given to the capitalistic economy its distinctive meaning and function. Public corporations must pay far greater heed to 'service' considerations and make 'profits' only an accounting devise for balancing social utility and social costs. They must have their own ways of assessing the relative intensity of the consumers' wants and adopt a priority scale which not only reflects but also guides and develops the consumers' choice. The price index will retain its utility for this purpose but cannot be made the only guide to decision and action. In their investment policies the corporations have to be limited by the general investment policy of the community based again on the measure of relative needs of the different industries for which capital resources are required and must, of course, limit the adoption of technical innovations to the possibility of reabsorbing displaced labour, if any, in alternative occupations which are equally attractive for 'the technically unemployed' both from the functional and income standpoint. The vicious practice of throwing the cost of economic progress on the individuals, who are rendered jobless by the incidents of change, can be no part of the policy of public corporations. In the recruitment and payment of the workers of all grades there has to be equality of opportunity and inequality of payment must be limited to the differences of quantity and quality in functional efficiency.

These problems so far have not been frankly faced, much less even partially solved. But from the nature of things the very development of public corporation as a form of industrial organization raises these issues in a form which makes it difficult to shirk or shelve them. The 'smoke screen' tactics adopted so far to circumvent them cannot answer the need for basic changes for any length of time and the issues are inexorably, even though slowly, impinging themselves on the problems of policy and administration. One important result has already been achieved, *i.e.*, the investors, the owners of capital,—have in the working of these corporations been deprived of the policy—determining function; and though this change is only formal for the shareholders of the joint-stock companies are also in practice functionless rentiers, it has clarified their position and made it obvious that the owner-

ship of capital is in itself no qualification for having a share in shaping and administering the policies of economic undertakings. These corporations, relatively speaking, are new institutions and they are cribbed and cramped by the inhibition of the anachronistic principles of the existing system; and if their origin and functions are properly understood, they have to be regarded as organic mutations in the evolution of economic life, as qualitative changes through which the cumulative effects of the quantitative differences generated and developed by capitalism within last 150 years, are expressing themselves in anticipation of the bigger changes which have still to come.

I have dealt with the developments which are, in my opinion, of real importance from the functional and therefore, structural standpoint for in economic life, as in life in general, organic changes pre-suppose the existence of a new and insistent functional urge. I have in the review purposely left out the consideration of forces which have made capitalism increasingly unworkable and created intolerable stresses in national and international economic life. I have also left out the revolutionary changes of Soviet Russia and counter-revolutionary changes in the Fascist countries, which in spite of their superficial similarities of technique, are fundamentally different from each other. These are changes outside and not within the capitalistic economy, and though of significance as showing the trend of development when fundamental transformations are made in response to new purposes and needs, they contain assumption of a widely different character and have, therefore, to be left out of consideration in the review of the structural changes in the capitalistic economy. But the changes referred to above are real changes and indicate a process of adjustment of very wide scope and great importance. They show that the process of emergent evolution is at work and can, given favourable conditions, be carried much farther to bring into play an increasing social purpose of an all-inclusive character.

V

It may, however, be asked whether this process shows that the capitalistic economy has in it the power of internal growth and can by self-adjustment answer the challenge

of the times. That the challenge is severe, almost menacing, can admit of no doubt whatsoever. But whether it will be successfully met by growth from within is not a question of structure but of purpose and sanctions behind it. Capitalism is not industrial technique, standardised mass production or high-pressure salesmanship. It is a system of social relations in which a privileged class holds all key-positions and controls all nerve-centres of the system primarily for its own benefit owing to its possession of money-power. Will this system of social relations be changed by the changes analysed in the paper? Will privilege thus make way for ability animated by a desire for general good? Will the surplus, which the system can create and provide for the first time a basis for a culture of the masses in the true sense of the phrase, be made available for the purpose? And will all this happen without any 'catastrophic' changes? The global war is a catastrophe the magnitude of which, it may appear under the strain of the super-human effort called forth by the war, can itself be an occasion for and cause of the fundamental change in the system of social relations. But in spite of the war-time controls, regimentation and mobilization of human and material resources, it is clear by now that war in itself has not produced these changes, privilege is more deeply entrenched than ever and the war has, owing to the dire need of winning it, placed it in a stronger position to frustrate all efforts to end it after the war. These changes in themselves carry no sanction of the purpose which is seeking to fulfil itself through them and do not hold out any assurance for the future. It is possible that the impossible may happen and the suffering and tragedy of the war may tap some unsuspected sources of moral energy and vision after the war and bring with it the conversion necessary for the grand performance of the abdication of power. It may be that the post-war situation will develope its own sanctions, as well it may, and resolve the deadlock created by the short-sightedness of the men in authority. This deadlock has not been resolved by the need of winning the war, but it is possible that the need of winning the peace may develop an urgency of its own and clear the barricades thrown across the path by the contradictions of a frustrated social system. All this is possible but cannot provide the basis of a new faith and of human efforts at a very much higher level of achievement.

But these are speculative questions to which no answer can be found in the structural changes described with extreme but necessary brevity in a word-saving jargon which may confound the laymen but ought not to obscure the meaning to the discerning minds of economic experts for whom this short paper has been written.

THE ROLE OF THE EXCESS PROFITS TAX IN MODIFYING CAPITALISM

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The purpose of this essay is to point out how the pivot of capitalistic structure, *viz.*, the profit motive, has been attacked since the last Great War by the Excess Profits' Tax, and to suggest that, if Capitalism is to survive in the post-war world as an alternative to Socialism, a greater use of this tax will be both necessary and desirable. Attention is also drawn to the usefulness of this tax in planning a capitalistic economy.

The Profit-motive.

It is hard to define accurately what capitalism is, but it is easy to understand the 19th century individualistic form of capitalistic economy, which persisted till almost the present war, though in a few countries it was supplanted and in many others modified during the last two decades. Freedom of economic action and non-interference by the State, protection of vested interests, freezing of economic forces, the rule of monopoly and controls over industry destroying the old economic freedom and healthy competition, anti-thesis between progress and happiness—these and many other features and effects have been associated with capitalism. But, its outstanding characteristic is the profit-motive. The difference between costs and prices constitutes profits which form the prime incentive and governor of the capitalistic structure. "It is the paradox of our economic system," observes G. D. H. Cole,[1] "that it appears to treat as a good—as the end and object of the productive process—not all the forms of income which are generated in the course of production but profits alone." "To expect the unfortunate capitalistic system to work, if production and distribu-

[1] *The Intelligent Man's Guide through World Chaos,* p. 37.

tion of goods is not profitable, is like expecting a motor car to go without either petrol or a Steering wheel.''[2] In the present system, production is undertaken only when it is profitable and the larger the anticipated profits, the greater will be the forthcoming enterprise and initiative. Whenever there is a fall in profits, capitalistic enterprise tries to counteract it by increasing efficiency of production lowering costs, limiting supply or in similar ways.

The dethronement of the private profit-motive from its pivotal position is the feature of collectivist economy. Since production and distribution are controlled by the State, the type, quantity and price of anything depend not on the volume of profit but on the social expediency of producing the article. Of course, many commodities are sold above their cost, some perhaps at a higher price than usual under capitalism and some probably at less than cost. It is not, therefore, the total absence of profit that characterises the co-operative and collectivist societies but its comparative insignificance, whereas it is the driving force of capitalistic production.

Indirect Control of Profits.

Socialists since the days of Robertus and Lassalle and even non-socialists much earlier have recognised the need for regulating the profit-motive, if society is not to be exploited by the fortunate few. A large part of economic legislation in the 19th century aimed at such restriction. More recently, however, this citadel of capitalistic structure has been attacked more pointedly in a direct as well as an indirect manner. Indirectly, any social action which increases costs or reduces price normally tends to cut down profits. *Price Control* such as the concept of the 'just price' of the middle Ages and fixing of the standard fair and maximum prices of to-day reduces the entrepreneur's income. Similarly, *regulation of supply*, e.g., prevention of cornering, bring down prices and profits. A third type of action is *costs control;* the fixing of standard and minimum wages, hours and conditions of work and similar legislation affect costs of production and profits. These aspects of social interference are growing in importance since the Great War and especially since the Great Depression. In fact, such regu-

[2] John Strachey: *The Nature of Capitalist Crisis,* p. 101.

lations formed a major plank in the American New Deal and were adopted in differing degrees elsewhere.

Direct Regulation.

The restriction of profits, however, was not the primary object of these instruments but only a secondary effect. Since the last war the direct assault on profits through the weapon of taxation has become a characteristic feature of the world. There were, of course, the income and super-taxes as well as the corporation tax, all levied at a high-rate but they affected incomes as such and not particularly the profits aspect of income. The *profits taxes*, on the other hand, have a different purpose, and the State has stepped in to share, and sometimes even to take over business profits entirely.

Two types of such taxes have sprung up, *viz.*, the *Undistributed Profits Tax* and *the Excess Profits Tax*. The former, introduced in 1936, is largely confined to U.S.A. Its main purpose is revenue, namely, to tax the part of profits which could not be got at otherwise. The latter, *Excess Profits Tax*, however, belongs to a different category. It has been the most revolutionary development in public finance since the introduction of the income-tax. Although, it is an old tax advocated and even administered long before 1915, it is practically the child of the Great War. Originating in revenue considerations and developing for regulative purposes, it has blossomed into an ethical tax with the prospect of becoming an important instrument for planning capitalism. Of its two forms, the War Profits' Tax was essentially temporary and was levied partly for revenue purposes and partly for preventing private exploitation of an abnormal situation. But, even this tax modified capitalism because it introduced the idea of conscription of wealth to balance conscription of man power; in the words of the *Economist*, it was "a sop to public conscience rather than a determined fiscal instrument." It accepted the principle that in social interests, the profit-motive must be controlled and that, wherever profits were abnormal, society has a right to the excess. As a German writer has put, the tax is merely the restoration of a part or the whole of a surplus which is never actually the property of the owner but which being socially created is socially owned. A more explicit recognition of this idea forms the basis of the other variety, *viz.*,

the Abnormal Profits Tax. This impost may be noticed in its nebulous stage in the British National Defence Contribution and Armaments Profits Duties of 1937-38.

What is very suggestive of the attack against profits lies in the methods determining the normal. The base period method, assuming the actual profits of the base year or years as the standard and regarding only the excess as taxable, obviously holds good in *abnormal times* and makes the tax purely temporary. But the percentage standard goes behind the profits earned in the base year and fixes the normal rate *de-novo* with reference to the capital invested. " Base the tax upon excess over a fair return on the investment, properly measured to start with, and with each passing year the tax may become sounder and more equitable." In U.S.A., the percentage method was in vogue and in the United Kingdom, the base method was more common. But, the best British opinion, wrote Professor Haig, appeared to favour the American type and progressive scales of tax; and "with the passage of time, the percentage standard based on invested capital has been assuming a larger and larger role in the procedure." Whatever the merits of the normal rate allowed and of the methods of arriving at it, this form of determining the excess enunciated the principle that the profits which a concern could legitimately expect is not what it was getting, but is something to be determined on other grounds.

Permanency.

It may be argued that after all the Excess Profits' Tax was a temporary expedient and that very soon after the Great War the profit-motive came back to its own; and that even to-day the story may be repeated. But this is misreading history. Even at the time of the last war, the tax was hoped to stay. In 1919 President Wilson stated[3] that, while the tax need not long be maintained at the rates prevailing during the war, " it should be made the basis of a permanent tax system." Professor Haig, who investigated, on behalf of the American Economic Association, into the working of the Excess Profits' Tax in Great Britain, concluded[4] that "the tax to be successful must be

[3] Wilson's Message to Congress, 20th May, 1919.

[4] *American Economic Review,* X No. 1, p. 13.

permanent in character''. Professor David Friday, another American authority, observed[5] that this tax or "some other form of tax on differential profits should be continued, not merely because it is just and furnishes a much needed correction of the workings of our price systems. It is the tax that least impedes enterprise and business activity. Indeed, I should like to see the Excess Profits' Tax substituted for all other taxes except the tax on land." To-day, too, the opinion is gaining ground that not only should profits be mulcted but that the tax must be permanent. Writing about the tax, Professor Carl Shoup[6] observes, "It will be assumed that the tax is designed as a permanent part of the system, not merely as a defence-finance or war-finance measure."

The detailed study of the tax in its various aspects has been set out by me elsewhere.[7] It is sufficient to note here that the levy was abandoned after the last war for three reasons. First, the passing away of the world crisis brought back generally the old capitalistic structure though not in all countries and with all its pristime purity. The tax, like Woodrow Wilson's dream of a New World, was regarded as too much of an interference with a 'natural' order. As Professor Haig put it,[8] the business community considered it dangerous because the admission of the principle would open the door to a permanent policy of social control of profits'', and feared it as a potent socialist weapon. Secondly, the revenue needs of the State, becamc less pressing and could be met from other sources, such as the Income, Super and Corporation taxes. The revenue considerations thus becoming unimportant, the ethical aspects of the tax were dropped by the ruling powers. Thirdly, there were many administrative difficulties in the tax as worked during the war period; they were no doubt important but with the return of the old order, attempts to improve the structure and solve the difficulties were given up. And the present storm in the world was necessary to revive the tax and thus in 1938 emerged the A.P.D.

But the principle that the profit-motive must be controlled has been recognised. Beginning with the arma-

[5] The Excess Profits Tax—Discussion (*ibid.*, p. 22).

[6] *Quarterly Journal of Economics,* Vol. LV, No. 4, p. 535.

[7] *The Theory of Excess Profits Taxation* (to be published shortly).

[8] *A. E. R.,* Vol. X, No. 4, p. 168.

ments industry, regulation of profits has spread to all businesses and has meant even complete appropriation of profits. The question naturally follows: Is there in normal times a margin of profit high enough to make the tax operative? This is a matter of fact and a detailed study of profits[9] points out that the gains in some industries and in some concerns are large enough to offer scope for the levy of the tax. The following figures relating to our country are suggestive:

Ordinary Dividends declared (average for 1918-1937)

Jute: 44.7; Cement, lime, etc. 23.3; Paper: 20.6; Cotton: 20.6.

Dividends declared by some Jute Mills:—

	Gourepore	Hoogli	New Central	Union
1918	250	125	330	275
1919	420	400	125	250
1920	250	200	190	190
1921	20	75	85	Nil
1922	70	30	55	50
1923	80	40	60	60
1924	120	100	100	110
1925	60	100	90	45
1926	30	80	40	65
1927	100	100	85	120
1928	60	125	105	115
1929	50	125	75	70
1930	27½	75	30	30
1931	Nil	40	20	20
1932	10	20	15	17½
1933	30	20	17½	27½
1934	50	30	20	30
1935	50	30	20	30
1936	40	20	15	22½
1937	22½	10	10	12½
1938	12½	Nil	9	8
1939	35	Nil	11½	12
Average	82	88	68	75

[9] *Vide* Chapter IV of my forthcoming book on '*The Theory of Excess Profits Taxation.*' Some portions are published in the *Journal of the Mysore University,* Vol. IV, Part II.

An important aspect of the tax is its value as an instrument in planning Capitalist economy. The purpose of planning is the optimum utilisation of the available production and consumption goods from the standpoint of social needs and social welfare. Such a redistribution of resources is achieved under socialism by the State determining the direction and extent of investment. That is, a co-ordinated, pre-planned system is imposed upon society by a central authority without the primary consideration of profits. Perhaps, this is a desirable arrangement but it destroys the present-day economic structure. A similar re-adjustment of social resources—perhaps not so satisfactory and effective—can be achieved with less of a revolutinary change. This consists in remodelling Capitalistic economy by a large dose of socialism, the most important modification being the regulation but not the extinction of the profit-motive, for without it, there can be no Capitalism and without control, capitalism cannot survive. Under Capitalism, investment and enterprise are regulated by effective demand which ensures higher prices and larger profits. Thus, the Capitalistic distribution of resources is guided largely by the prospect of profit. Necessaries and some comforts are produced in smaller quantities than they are needed because they yield low profits, whereas other comforts and luxuries yield a higher return and therefore the enterpreneur's energy is directed to their production. If these are made less profitable by taxation, the entrepreneur will seek out other avenues to make up the reduced profits; goods with less margin of taxable profits will be taken up. There is, thus, bound to be a redirection of investment and enterprise so as to attain a socio-economic equilibrium in production, so far as is possible under Capitalism.

Such a readjustment may be territorial or occupational. The former would mean the shifting of capital and enterprise to other countries as has actually happened in the case of the United Kingdom and other parts of the Empire, where taxation is lower. If measures are passed restricting such migration or if the Profits Tax is adopted widely, this undesirable tendency would be discouraged and occupational redistribution would be encouraged. No doubt, in the short period, capital enterprise are not mobile enough to shift themselves easily among alternative occupations, but in the long run, which alone counts in the

life of a nation, such adjustments would be effected. To conclude, in the principle of special profits taxation there exists a practical method of arriving at a solution of the problem of monopoly profits and of seizing some of the advantages of socialised industry without incurring the risks and disadvantages of Socialism.[10] The practical acceptance of this position has brought capitalist economy nearer Socialism.

[10] Report of the Committee on Taxation of Excess Profits in Great Britain. (*A. E. R.*, Vol. X, No. 4, pp. 174-75.)

MARKET MECHANISM UNDER CONTROL ITS IMPLICATIONS FOR ECONOMIC THEORY

BY

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In the post-depression literature on economic planning a considerable amount of discussion centred round the efficacy of the market as a mechanism for the equi-marginal distribution of goods and factors. Assuming rationality to be the basis of choice, the market, it is held, is the only means for bringing about an optimal distribution of resources. Occasionally, it was even suggested that the market equilibrium was identical with the economic norm, though, generally, such identification was never pressed without some far-reaching reservations. The writings of Professors Hayek and Mises and those of their followers led by Prof. Robbins attacked the theory of planning on the score that to the extent to which planning does away, or at any rate, effectively tampers, with this subtle machinery of the market, it is likely to lead to a state of affairs in which the net aggregate satisfactions would be less; and the intelligent adaptation of means to ends will be replaced by purely whimsical adjustments based on the dictates of the planning authorities. From this, naturally, the conclusion was drawn that any extension of planning or any growth of intervention by the State in the freedom of the market is undesirable from the point of view of the equi-marginal adjustment of means to ends. The argument has been loaded with such elaborate logic that out of sheer respect for its profoundity one felt tempted to accept it as convincing, though the doubt always lurked that this elaborate theoretical structure may not be so safe a guide in practice as it undoubtedly appears to be correct in theory.

For, against this profoundity of scholarship were set arguments which, though less profound, appealed more as being in consonance with reality; at any rate, to the extent to which they questioned the wisdom of attaching to the market such exaggerated importance. Chief among

these dissenters, no doubt, were the socialists, who advocated the need for a planned adaptation of resources of social ends on the very score that the decisions of the market are neither rational nor self-adjusting. There is the view of Dobb, for instance:

"The automatic adjustment and rule of rationality which is held to be the special virtue of a competitive market can only operate through the influence of price changes after the event. Each set of events occurs as a result of decisions taken in blindness to other decisions and hence on the basis of guesses as to what their joint outcome will be. Only after these decisions have been embodied in action will the resulting price movements afford evidence as to the facts of the total situation and so furnish an automatic corrective. But where decisions have to be made some distance ahead of the market events into which they mature, as is particularly true of all act of investments, this corrective of resulting price movements may not occur perhaps for a period of many years. In the meanwhile guesses have to serve for knowledge and mistaken decisions continue to be made and embodied in action, and the legacy of the mistakes may persist in the resulting maladjustments for years and decades."[1]

Not only the socialists but even other economists of a less red hue,[2] (perhaps not red at all!) also raised their voices expressing doubts regarding the infallible sensitiveness of the market mechanism. If the market is a satisfactory instrument for the attainment of equi-marginal distribution how can we accept this fact in face of the glaring contradiction of the widespread reality of deep penury existing side by side with sybaritic luxury? If, on the contrary, the market is capable of bringing about an imperfect and distorted embodiment of the economic norm, then possibly, the alternatives to the market mechanism need to be seriously considered. For, there certainly is an economic norm implied, if not explicit, even in the writings of the positive purists, in the concept of the "equi-marginal," particularly the "equi-marginal" adaptation in a social group; though the definition of this "equi-marginal" is far from being a light task. And who

[1] Dobb: *Political Economy and Capitalism*, p. 278.

[2] *e.g., Mrs. Barbara Wcotan.*

can assert that this norm is being realised in actual practice? Says Mrs. Barbara Wootan:

> "If the yardstick which the market fsahions is in fact an accurate and reliable measure of intelligent adaptation of means to social ends, then we have indeed an instrument of superb delicacy and subtlety, and the problem of adjusting the conflicting purposes of the various members of a social group, which look so formidable on the surface, is hardly a problem at all. But thanks to this essential unity of *all* market relations, if the yardstick is a little faulty in even a few places, then the *whole* of any structure built upon it is consequently modified and the original fault liable to be repeated and magnified indefinitely."[3]

Further, the kind of market that is supposed to have the competence to bring about a perfect equi-marginal distribution—the market in which competition is perfect, consumers have the freedom and the perspicacity not only to choose rightly but in degrees required to make equi-marginality possible and one in which there are no very serious differences in wealth that might interfere with the marginal utilities of money on the one side and of goods on the other—a market like this is indeed rarely possible, if ever at all.

If all this be true, it follows that " it would be inevitable and proper that interest should shift away from the market and all its works towards the possibility of improving upon the known alternatives to it, for, the prolonged study of a method of distributing resources which is convicted of always distributing them badly is not a pastime to which minds that are blessed with a sense of practical responsibility will happily betake themselves."[4]

While this is the path along which theory moved, the practice in the capitalistic countries tended increasingly to restrict the scope of the free market. Marketing boards minimum wage legislations, import export and

[3] Barbara Wootan: *ibid.*, p. 182.

[4] Barbara Wootan: *ibid.*, p. 211.

exchange controls, all tended to bring about—particularly since the Great Depression—an increasing sector of activity outside the free market. More than this, the present war has violently shifted our interest away from the market and all its works towards the possibility of improving upon the known (perhaps even the unknown!) alternatives to the market. We have not waited under the stress of the war to refine and improve the market. It was found to be imperfect, and a free market has been found incapable of achieving the main objectives in relation to war. In most countries not only prices, but wages, profits, investments, expenditure, transport, even the disposal of labour, the exchanges, in fact, all the aspects in which the market-mechanism is normally at work have come under control in order that the primary social objective may be achieved. The market could not be left to itself in any aspect of economic behaviour in which the equi-marginal distribution is the norm. Control has come to be felt necessary in order to bend the resources of the countries to the end in view. It has, in a way, emphasised, perhaps by exaggeration, the nature of the imperfection inherent in the mechanism as a "referendum of the wills" of the millions whose decisions it is supposed to reflect.

This, in my view, emphasises one particular aspect of the limitation of the market—viz., that its very freedom makes its works incompatible, to some degree at any rate, with the fulfilment of the social purposes, if any, that the State may have in view. The market is an instrument for the adjustment of means to ends in a general way or its own way; but it is doubtful, if its way is identical with the way desired by the community in general. It is here that the question of defining what is exactly "equi-marginal" becomes imperative. One way of interpreting this is in value terms, where value is measured in terms of some variety of money. But this view fails to take account of the conflict that has been there for long, but more prominently since the time of Ruskin, between wealth value on the one hand and values taken as a whole from the social point of view and as it really happens in life on the other. Even supposing, not granting, that the market is a sound instrument for equi-marginal adaptation of resources, that would bring about the maximum possible want-satisfaction, the assertion offers no answer to the question, whether the objectives of the State or society, are limited to the

norm of maximum want-satisfaction. States and communities have other objectives, even when we confine our attention to the purely economic sphere, the pursuit of which may offer a justification against the objective of maximum want-satisfaction. The restraints which have come to be exercised in most countries on the freedom of the market, in fact, seem to be designed to limit the freedom for the maximisation of individual want-satisfactions in order that priority may be given to the requirements of corporate want-satisfaction. Even before the war the whole sphere of activity relating to industrial protection, minimum wages, marketing, import and export boards, labour legislation, subsidised production, education and public health, etc., have thriven on the only ground (barring some exceptions, undoubtedly) that the states, as a part from the sections of which they are composed, have objectives distinct from and in all these cases in conflict with, one or another of the individual or sectional wills, and the desire for the realisation of these social ends makes it obligatory to impose restraints on the freedom of the market.

Here the ends in question need not necessarily be the ones prescribed by the economist. The economist, it may even be assumed, remains neutral between ends; but that does not eliminate the pursuit of certain ends considered essential by the State, and to the extent to which the ends it has in view conflict with the "ends" the market mechanism enables us to realise, control and intervention become inevitable.

This seems to be the case for one particular reason. We can accept the decisions as registered on the market place as embodying sound social values only on the assumption that whatever happens there is necessarily sound. That the market offers a *natural* mechanism for the adaptation of means to ends, (natural in the sense of a thing that has had a spontaneous evolution) may be easily granted. But whether this *natural* adaptation is also an *ideal* adaptation or at least *tends* to be so seems a doubtful matter. And if there is any single moral to which the history of interventionism points out, it is this—that this natural adaptation is often, and at many points, in conflict with the adaptation deemed desirable (for sound or unsound reasons,) by the community; and for this reason the State has attempted to bring about not merely the

maximisation of want-satisfaction but a minimisation of mutual compatibility of wants, reconciling with different degrees of success the sectional with the general purposes or ends.

The argument in favour of a complete free market, in fact, reminds one of the argument in favour of philosophical anarchism. But, just as anarchist views of liberty notwithstanding, it is found necessary to restrict liberty within limits of law, in the economic sphere it seems essential to accept the need for restraints on the market-freedom, if social objectives are to be realised. And in spite of Prof. Robbin's lusty denunciation of Keynes for having advanced the view that the case for a free market is analogous to that for anarchism[5] there seems to be a fairly widespread acceptance of the belief that the awards and disposals on the competitive market only offer a solution which may not be in consonance with the general good. I believe that Prof. Knight accepts some such view in calling attention to the utter inapplicability of the notion of a tendency towards a price equilibrium to history in the making to the changes in opinions, attitudes and institutions.[6] The writings of Davenport seem to be "inspired by a determination to deal a knockout blow to the assumption of a rough coincidence between individually gainful and socially valuable occupations."[7] Even Marshal, perhaps, called attention to this, when he maintained "that sources of individual or social decay are sometimes most dangerous, when they are associated with great achievements and rich benefits."[8] The capitalistic market mechanism has enabled us to produce great achievements and rich benefits; but within it are also embodied sources of individual and social decay.

If there is any substance in these arguments, the inroads made on the free market by the interventionist acts of the State seem to have some justification in principle, although, there may be no justification for some

[5] Robbins: in his *Economic Planning and International Order.*

[6] Knight: *Ethics of Competition* (Essay on Dynamic and Static Theory).

[7] Wicksteed's review of Devonport's "Economics of Enterprise," *Economic Journal*, 1914, p. 422.

[8] Marshal: *Industry and Trade*, p. 175.

particular varieties of intervention. In fact, if economists are to adopt a strictly positive or scientific view towards economic analysis, they would seek to explain in scientific terms why there is such a universal growth of the tendency to impose checks on the freedom of the market. But strangely enough, instead of attempting this, some of them are merely content to deplore the growth of these tendencies on the ground that they are departures from the ideal (!) norms of economic liberalism.

Nevertheless, planned intervention has become, in most markets, an accepted fact. It is perhaps no exaggeration to say that such planning is accepted as an instrument complementary to the market mechanism for bringing about the most economical disposal of resources. It may be, that in individual cases, intervention has been carried too far and has been applied in too many cases, but mistakes in its application cannot take away the recognition of its utility as a complement to the market. The New Zealand, Australia, South Africa, Germany, America and in the United Kingdom itself, the last decade has witnessed the increased curtailment of the scope of the free market and its place taken by planned activity. The present war has only further extended the sector of this control; and for years to come even after the war, it is likely that the needs of reconstruction may dictate the continuance of a good many of the restraints now imposed on the freedom of the market. It seems, indeed, too late in the day to sit down and lament that the free market is being given up. The economist as a scientist should try to discover the causes for this universally manifested tendency, in order that this understanding may help to a better practical direction of this evolution.

Possibly, the economist can even do more, than merely explain its causation. It is open to him to indicate the direction in which the exercise of such restrictions may be economical, and those in which it would not be. He can, in general, help largely, in planning the plans and restricting the restrictions to the extent that may be adequate to subserve the purposes in view and to bring about the proper harmony between the social and sectional claims. Nor does it seem to be right to believe that planning, however it might begin, is bound to lead to communism and the complete elimination of the free market.

As Prof. Pigou rightly pointed out, the issue really does not seem to be between capitalism with a completely free market and socialism with its complete elimination. The capitalist societies have in their midst large publicly owned aggregations of capital; and public expenditure in an increasing number of states is becoming responsible for the disbursement of large slices of the nation's real income—trends which are essentially socialistic in nature. On the other hand such avowedly socialistic economies (general or national) as have come into existence have not been able completely to dispense with the market mechanism. It may not be possible for us to venture on prophecies describing the likely nature of future institutional changes, but if the present increase in the co-efficient of substitution of the free market by the controlled market indicates anything it is perhaps this, that we shall possibly realise through this evolution that proper balance between individualism and socialism, made possible by a market in which the free and controlled sectors are themselves in a position of equilibrium such as would enable the most economical disposal of resources considered from the individual as also the social points of view. Individualism, with its simplicity and generality, its impartiality between one man and another, its foundation in individual freedom of taste and choice is too precious ever to disappear completely and to that degree the market as an apparatus of individualist economy may not disappear. But at the same time the attractions of a socialistic economy, the avoidance of the social cost of monopoly, the possible elimination of the trade cycle and unemployment, a better perception of the relation of public needs to those which supply other utilities, the allocation of resources by design rather than by inducement and the ability to act on wages directly—are all objectives which are likely increasingly to induce the acceptance of social control and to that degree impose restrictions on the market mechanism. The economist will perhaps render a sounder service, if he recognises this tendency and helps to discover that equilibrium position between the free market and planned disposal that is likely to bring about the largest possible admixture of the merits of the two economies with many of their respective limitations eliminated.

STRUCTURAL CHANGES IN THE CAPITALISTIC ECONOMY IN RELATION TO ITS RATIONALE

BY

H. VENKATASUBBIAH

I

Though the rationale of capitalism that the free play of individual economic interest works out to the maximum benefit of all was never universally and at all times true, the area of their coincidence in society was considerable during the whole of the nineteenth century. But everyone knows how concurrently with the extension of industrialization to eastern and colonial areas and the growth in modern industry of factors like the size of business units, technological change and combines, a gradual shrinkage occurred in area of this coincidence, and how during the past two decades the coincidence completely faded out when monopoly, coupled with the private manipulation of investment credit ('finance-capital' in the Marxist terminology), seized capitalistic industry. The most damaging aspect of the new trends was under-employmnt of human numbers and other productive resources: For, whatever the method by which it organized production and distribution, the promise of capitalistic economy was continuous elasticity, and Keynes really wrote its epitaph when he declared: "It is in determining the volume, not the direction, of actual employment that the existing system has broken down."[1] Lord Stamp defined economic progress as "the orderly assimilation of innovation into the general standard of life," and under innovation he listed science, better ideas about money, more social confidence in banking and credit, improved political and social security, and legal frameworks for the better production and diffusion of wealth.[2] If such was the innovation to be assimilated in an orderly manner to cause economic progress, then it is clear that the capitalistic economy that immediately preceded and followed the Depression almost

[1] *The General Theory of Employment, etc.*, p. 379.

[2] *The Science of Social Adjustment*, pp. 5, 6-7.

completely failed in its mission of economic progress. When the system no longer caused economic progress its rationale broke down—as it was palpably absurd to maintain that the 'maximum benefit of all' was compatible with economic stagnation,—and stripped of its rationale there occurred the danger of the system forfeiting its claim to exist as the premier institution of civilized society. Economic thought was dislodged from the position it had taken up for some considerable time. But the traditional economic analysis did not countenance any structural change by external (State) pressure that might disturb the harmony of its set analysis, while it condoned structural change by internal (monopolistic) pressure as acts of 'individual economic interest' which had been assumed to work out to the 'maximum benefit of all': "Added to the scientific dogmatism that things actually did work out according to the expectations of the theory, was the ethical dogmatism that it was just and right that they should, and anyone who proposed an attempt to modify the social order away from this pattern was not only foolish but vicious as well."[3] This philosophy acted as complementary to empirical actuality and hence the breakdown of the system was complete.

II

The fundamental controversy which this breakdown has rightly engendered is whether the structure of national economies should be (1) wholly planned or (2) wholly competitive or (3) a combination of planning and competition, in all cases the State being accepted as the agent to bring about the needed structural change. Complete planning is outside the scope of this paper. Before considering the other two, however, it is necessary to refer to certain structural activities in capitalistic economy which are classed under planning, but which are not carried through the agency of the State. There is a tendency, particularly in the United States, to use the term 'planning' for activities that are strictly series of rationalization with or without monopolistic combination. Such activities 'eliminate' competition only to intensify it,

[3] *Explorations in Economics: Notes and Essays in honour of F. W. Taussig*, p. 364.

while real planning implies the elimination of competition as an act of reducing the area of competitive structure in the national economy to facilitate full employment. This latter can be accomplished only through the agency of the State. For, the 'plans' of rationalization and combination engineered by entrepreneurs which started with cost cutting or output control in the field of industry have failed to produce the chain of consequences that was propounded to follow such a start. Because, the gain was not so balanced between higher profits and higher wages as to cause an appreciable increase in purchasing power; and the home prices and export prices were not so balanced as to maintain a simultaneous demand at home and abroad. Without these no widening of the market occurred that could advance fuller utilization of productive resources. The trends in industry and trade during the pre-depression years in Great Britain, Germany and the United States are examples of the fraudulence of entrepreneurial planning. Such plans not only did not lead to prosperity but led to depression. No less a fiasco was entrepreneurial planning undertaken on the compulsion of the State. The post-depression N. R. A. Codes in the United States are the outstanding examples of such planning, and these could not uphold its pet theory—private motivation with public 'supervision', as the two refused to combine. For, reducing hours and increasing wages, with its prospect of declining profits, damped the private motivation to restart business, with the result that no expansion occurred that could take the economy anywhere near full employment. And the compelled plan from the credit side—that of credit expansion—lapsed for want of users.

III

To take up a wholly competitive economy, it is well known that for some years now a small, but influential, group of economists is preaching that the rational method by which capitalism can be restored its rationale is for the State to lead capitalistic economy back to the condition of perfect competition, freeing it from its present monopolistic fetters, dissolving the private concentration of power in industry and finance. In the words of Durbin this method

seeks to *reverse* the institutional trends of capitalism towards the elasticity that was its in the earlier stages of its evolution, as opposed to the method of combining planning with competition which *deflects* the same institutional trends "towards a new, more mobile and more consistent centralized or collectivist system."[4] This reversal implies a restatement of *laissez faire*. It is not a saving of private enterprise system from outside intervention, but a saving of it from its own intervention by outside intervention; not that outside intervention is wrong in principle, but that it is wrong if and as long as perfect competition prevails and right if and as soon as it is superseded by monopoly; that intervention to rob private enterprise of a certain area of competition is not justified, but intervention to restore to private enterprise the area curtailed to it by its own excesses is justified. Thus in terms of the old *laissez faire*, the new *laissez faire* means killing *laissez faire* to restore *laissez faire*! The only example of this economic philosophy being put into a systematic and sustained practice is the anti-trust enactment in the United States, embodied in the Sherman, the Clayton and the Federal Trade Commission laws, and its working through a combination of trade practice conference rulings and judicial interpretation. Challenging the economic legitimacy of price discrimination is the core of these laws. Except for a brief period under the N.R.A. they have held sway over American business for over a quarter of a century, resulting in prosecutions by the hundred launched by the Department of Justice and administrative fiats by the thousand issued by the Federal Trade Commission. With what result? No higher level of production occurred that balanced against consumers' freedom of choice, and business went contractionist and underground. If anti-trust laws had succeeded in restoring elasticity to capitalism by enforcing free competition, why should President Roosevelt, in 1938, go back to first principles about it? For, in his message of that year to Congress "Transmitting Recommendations Relative to the Strengthening and Enforcement of Anti-Trust Laws" he spoke of it as "a programme whose basic thesis is not that the system of free enterprise for profit has failed in this generation, but that it has not yet been tried," and "whose basic purpose is to

[4] *The Politics of Democratic Socialism*, pp. 146-47.

stop the progress of collectivism in business and turn business back to the democratic competitive order."[5]

IV

Planning industry and banking, retaining at the same time less disturbing parts of competition and private enterprise in them has been the most canvassed structural change in the post-depression years. It is to be a sort of economic diarchy consisting of a controlled half and a free market, half-conrtol in the sense of real planning as explained in Section II. A section of opinion has contended on theoretical grounds that (in the words of Prof. Hayek) "nobody has yet demonstrated how planning and competition can be rationally combined."[6] But has the supposed theoretical irrationality of the combination come in the way of its practical utility? The practical utility of a line of action to any economy should be judged by the extent of its ability to uphold the rationale of the economy which is inseparable from economic progress. Now the rationale of capitalistic economy is wholly dependent on full employment. But the economy has moved away from equilibrium at the level of full employment because it has outgrown its classical postulate of perfect competition. Therefore any measure that will restore to it the equilibrium at that level must be deemed to be of practical utility to it. Keynes recognizes, in principle, this function of economic diarchy when he suggests that "if our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory comes into its own again from this point onwards."[7] That these central controls should take the form of State ownership of a sector of production and banking, and that only when they take this form can they restore full employment has been the conclusion of those that favour combining planning with competition. To this contention it is difficult to adduce empirical evidence as nowhere as yet has economic diarchy been tried in such systematic manner, and over a period of time sufficient to yield

[5] *The Am. Econ. Reiew—Supplement*, June 1942, p. 128.

[6] *Collectivist Economic Planning*, p. 241.

[7] *General Theory*, p. 378.

generalizations, as complete planning in Soviet Russia and pseudo-planning and free competition in the capitalist countries. In this matter it is an utterly unequal contest between economic diarchy and these others, though the way in which post-depression central banking in Sweden and Nazi Germany has worked for the restoration of full employment may be cited as a pointer. Anyway *if* a combination of planning and competition succeeds in achieving this end it will be difficult to see how such a combination which restores to capitalism its very rationale can be irrational, though its rationality cannot be 'demonstrated' on paper. But the process necessarily implies that the capitalistic economy can be restored its rationale only by making it partially capitalistic. The paradoxical conclusion of the controversy will be that capitalism will again be its own self when it partly ceases to be its own self!

SOME STRUCTURAL CHANGES IN THE POST-WAR WORLD ECONOMY

BY

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The science of Economics is faced to-day with very complex problems. Old order has been changing giving place to new. As a result, the task of the economist has become much more difficult. A branch of economics has cropped up which, in my "State and Economic Life" I have styled Government Economics, the predominant feature of which are quotas, exchange control, competitive depreciation or devaluation of national currencies, and scores of other restrictive measures. The last great depression which started in 1929 and continued in many countries until 1935 was perhaps the longest and the severest depression which this world of ours has perhaps ever witnessed. Scores of new theories have been expounded to explain this phenomena. As a result of state intervention a new technique of economics control has been established, the repercussions of which have been far and wide. International trade has been strangled, policies of economic autarchy have been developed, the most favoured nation clause, which before the war was the most dominant feature of world economy, has given way to bi-lateral trade agreements. As a result of exchange control it has become inevitable to develop the technique of clearing agreements.

In other fields the changes have also been very considerable. In the field of currency and credit very profound changes have taken place. The policy of budgetary control has almost been revolutionised. The old policy of balanced budgets has given place to unbalanced budgets. Before the last Great War, a balanced budget was considered an inevitable sign of sound finances and every possible effort was made to attain that end. Now unbalanced budgets have come into fashion and are considered a sign of progress.

A student of Economics is bewildered at these changes. He is faced with new theories. In order to understand these new theories it is essential that we must study the causes which have led to the rise of these theories. Without the adequate understanding of this background one can hardly comprehend the new theories.

PART I

CHANGES IN TRADE AND INDUSTRY

The war and the post-war changes profoundly affected the economic structure and activity of the modern world. Europe was thrown into chaos resulting into serious dislocation of its trade, and commerce and industry. The hostile armies overran the green fields and destroyed crops. Owing to large transfer of able-bodied men, from industries and agriculture, to the army, production was seriously handicapped in Europe.

Money systems were cripped, debts were increased enormously and accumulation of capital was seriously hindered. Russia withnessed a bloody revolution which changed its basic economic and social structure. The completion of war in Europe witnessed another mad era. Revolutions were in the air and the economies of Russia's neighbouring countries had to be considerably changed. Land was split up. The number of nation States increased. On the other hand the New World was also undergoing a colossal change in economy. Under the slogan that "feed will win the war" and pleasant stimulus of rising prices tremendous increase took place in the production of food crops. Metaphorically speaking overnight the U.S.A. from a debtor country became a creditor country, but unfortunately kept the mentality of a debtor country. The post-war world failed to realise the full implications of the new changed conditions with the result that maladjustment continued. Restrictions to trade and transport which originated owing to war, continued quite considerably in the post-war period. Although tremendous efforts were made by all countries to increase production, but the same response was not witnessed in world trade. Again population in the post-war world failed to maintain the previous level of growth, and less and less was being

spent on food. Contrary to this, economic development continued.

The main impetus to economic activity after 1925 came from extraordinary advance in industrial technique and management—"rationalism" in agriculture as well as in manufacturing industries. The increasing development of motor transport and electricity led to increase in transport facilities. Except few countries (notably France) currencies had been stabilised by 1925 and international lending on large scale had begun. By 1929 Europe had completely recovered from the ravages of war and the equilibrium between Europe and the rest of the world had been achieved. But far-reaching changes were also going on. For instance, the technique of heating and generating power had altogether changed. This was detrimental to the coal trade. The production of crude petroleum increased by 39% between 1925—'29. The growth in the production of electric energy was still greater—50%. The manufacture of motor-cars increased by 29%. The tonnage of motor ships which was only 14% in 1919 of the total shipping tonnAge increased to 44%.

A plentiful supply of raw materials at falling prices was counterbalanced by a contraction in the demand for finished products. Cotton industry was undergoing a serious strain. The leading European exporters of cotton goods were adversely affected by the expansion of cotton industry in Japan and India. Woollen and worsted trade failed to show any expansion although the world production of wool had considerably increased. The flax and hemp trades were unable to maintain the level of 1920. The trade level in Europe between 1925—'29 was greater than in 1919—'25. This expansion of trade was due to international lending, but this must be understood, that the nature of these loans was different from the pre-war loans. The pre-war loans were mainly for development purposes and as such had very favourable long-term effects on the prosperity of Europe. But the industrial loans between 1925—'29 were mostly for developing industries in the less industrially developed countries and consequently had serious repercussion on European trade in manufactured goods.

PART II

CHANGES IN DEMAND FOR AGRICULTURAL PRODUCTS

We have described above the structural changes in industry and trade. But the changes in demand were not less significant and had very far-reaching effects on world economy. The intensity of the changes in demand of various commodities are very peculiar to the post-war period. This is explained by the changed outlook on life which came about owing to war. The liberation of women and the habit of smoking in the fair sex and their increasing absorption in trade and industry had far reaching effect on life. Certain new things had appeared. For instance the increasing use of motor-cars considerably changed life. Again, in certain countries State education and social insurance against unemployment, sickness and old age, have had the effect of diverting a part of national income from investment to consumption. The increasing employment of women resulted into large family income. The continuous employment of women was further strengthened by the lower birth rate, and the successful spread of the birth control movement. But the most important cause of all these changes is the increase in the demand for various commodities due to increase of productions in various parts of the world, as a result of which the national income has considerably increased. Owing to increase in the workers' standard of living the unit of family has a constant tendency to decrease and we find to-day that the number of children in most European countries is far less as compared with the pre-war period. For instance, in Germany, children under 15 years of age constituted 34% of the total population in 1910, but this figure dropped to 25·8 in 1925. Similarly in England the number decreased from 30% in 1921 to 25% in 1928.

The result of this tendency has been that less is being spent on children specially on their necessities. Thus income available for expenditure on objects other than the prime necessities of life has been growing rapidly. Taste and leisure have been indulged and the offer of novel products, which enhance the comfort and amenities of life, have met with a ready response on the part

of the consumer. The diet of the western countries is lighter and more varied, more expensive, more adapted to the needs of the society in which manual labour is diminished in importance. There has been a relative decline in the world consumption of cereals and a heavy growth of fruit, dairy products, and some of the colonial goods. Cotton and wool have been giving place to silk and artificial silk. Lighter and finer clothing is now required and motor cars, wireless sets, gramophones, electric appliances of all sorts creating and satisfying new demands have gradually permeated the world markets.

The world consumption of sugar increased very tremendously between 1920-21 and 1928-'29—70%.

Again there has been a marked tendency in many parts of the world—especially in America and western Europe, for the demand to shift away from those foodstuffs which require much preparation at home. Canned products, ready cooked meats and vegetables are being eaten far more now.

This tendency has had serious effects on the incomes of the local farmers. Of course these observations do not apply to poor countries like India, China, etc.

Part III

Changes in the Demand For Industrial Products

The changes in the demand for industrial products have been even more striking. Rising income means that a declining percentage is spent on foodstuffs and an increasing percentage on other commodities. Moreover habits of consumption have been revolutionised by the introduction of certain other recent inventions of motor cars, aeroplanes, wireless, gramophones, cinemas, etc. This revolution which has effected to a greater or lesser extent all classes of society in all parts of the world is one of the outstanding phenomena in the social history of the decade preceding the depression. The introduction of motor lorry in India and its spread to the villages had serious consequences for the Indian ryot. It has opened the outer world to them, travel has become less arduous and less expensive, thereby it has brought the towns with all their

attractions nearer to them and we find that this expenditure on cheap imported articles has been increasing. As such it may be considered an increase in his standard of living. Instead of the village "Khadi" he now wears the products of Bombay, Lancashire and Japan. The easy means of conveyance have brought the law courts nearer to his doors with the consequent ruinous results of litigation. On the other hand, the village cart, his major subsidiary industry, has been displaced owing to competition with the motor lorry for the transport of goods. Village industries have also suffered very seriously.

We shall give below an indication of demand in some leading countries for these new products.

The number of registered motor cars (excluding lorries) in the United States increased from 7 million in 1919 to 21·4 million in 1928. During the same period they increased from 260,000 to 998,000 in the United Kingdom. Tremendous increase also took place in Africa and Asia. In the beginning of 1922 there were only 60,000 wireless sets in the U.S.A. In 1928 this number stood at a very impressive figure of 7½ million. There was a similar rise in other countries. In Japan the number rose from 5,000 in 1924 to 730,000 in 1931.

The tendency for demanding conveniences and luxuries of life was to be seen almost in all fields. The construction of residential buildings, meeting the demand for bath rooms and modern household appliances has been rapidly increasing. The value of electrical and household appliances made in the U.S.A. at the beginning of the war was less than 3½ million dollars, in 1937 it rose to 77½ million dollars. The consumption of cigarette has increased tremendously. Almost all consumption industries have felt the influence of increased demand in fashionable commodities. Amusements and sports absorb more and more of the time and money of the community and a number of industries, manufacturing articles of sport, buildings, the cinemas have increased in number during the period under review.

From these observations we are led to the conclusion that the changes in the demand in the period under review were not only considerable, but had far-reaching consequences. A special feature of this change is that a considerable part of the new demand is less stable than the old. In other words, the new demand is more elastic.

The satisfaction of more secondary needs has come to play a much larger role than before and the character of these needs and the goods and services required to satisfy them are likely to shift more easily. Therefore the task of balancing consumptive and productive capacity would appear to have been more difficult, than before the war.

One of the main reasons for the severity and the prolongivity of the last depression was that demand for a number of commodities was of elastic nature and this could be considerably reduced for a long time. In consequence of these new highly elastic demands, the equilibrium is likely to be disturbed fairly easily. For people can easily curtail their demand for these newer products, than was the case for the more solid necessaries and conveniences of life. This was most clearly observed in the United States during the last depression.

PART IV

FINANCIAL AND MONETARY CHANGES

There was an increased demand for long-term loans after the war, both from businessmen and Governments, for permanent equipment of plans which were neglected during the war. The movement of rationalisation gave a further stimulus to this demand. Funds were also required by a number of states for national rehabilitation.

On the other hand lenders were less prepared to part with their capital for long-periods. Their reluctance was due to the fact that they had no confidence in the stability of the currency of the borrowers. The unfortunate experience of repudiation that resulted after the war notably in Russia was too fresh. The result was that loans could not be obtained easily for long-periods and higher rates had to be paid.

Speculation also grew in other countries with very disquieting effects. International lending was very much reduced. This had very serious effect both on the economy of the lending countries as well the borrowing countries. The magnitude of foreign loans could be well realised when we see that by 1914, the capital investments of Great Britain amounted to 8,000 million dollars; of France 8,700 million dollars; of Germany 5,600 million dollars, while the United States of America had a

net debt of 3,000 million dollars. The manufacturing industries of the lending nations had adapted themselves to these conditions of a continuous outflow of capital; and had built up a capacity for producing manufactured goods which could only be sold in sufficient quantities as long as export of capital continued. In exchange for some of these manufactured commodities, foodstuffs and raw materials were imported, the production of facilities having been created with the help of European capital.

But all this was changed after the war. The United States instead of a debtor country became a creditor country to the extent of 6,000 million dollars. International borrowing became more and more difficult. The foreign assets of the leading countries were considerably reduced. Net imports of capital were also very small. One important aspect of capital movement in these years is that not only short-term but also long-term capital moved in cross-currents. The same country would import and export large sums. For instance France was borrowing considerable amounts abroad on long-term but lending on short-terms. The mechanism of capital movements was more complicated now than before the war. This partly explains why the distribution of the world's gold stocks was such as to make the position of many central banks very vulnerable.

London no longer was the unrivalled financial market. New York and Paris were competing with it. There was no satisfactory co-operation between these three financial markets. The United States' newly acquired financial power seriously conflicted with her position as an exporting country. Although it had become a creditor country but the mentality of the debtor country persisted and it continued to follow the old policies which in these changed conditions no longer harmonised with the world interest.

Another reason for instability in the international financial relations of certain countries Australia, Argentina and some other South American States is to be found in the character of their international trade. Their exports consist largely of raw materials which are likely to fall heavily in price during the period of depression at the very moment when international capital movements are apt to change in such a way as to put, in any case, a strain on their balance of payment. In such circumstances it is

difficult to make a smooth adjustment and to prevent a breakdown in the credit structure. Taken as a whole, the international financial position in the years before the depression was much less stable than before the war.

There was serious mal-distribution of gold. The ebb and flow of gold movements was very irrational. On the one side, gold was being sterilized while on the other hand, the flow of gold from central banks was exercising a very serious effect on the economy of the gold exporting countries. The fact that some countries were hoarding gold resulted in the delay of the attainment of international equilibrium. And consequently the situation became so serious that the world experienced a very severe and prolonged depression which was fostered by all those restrictive measures which were adopted by Governments of the world before the collapse, and the depression was further accentuated by the rashness of policies followed to mitigate the depression and to achieve prosperity.

STRUCTURAL CHANGES IN CAPITALISTIC ECONOMY
IDEAS OF KEYNES & KARL MARX

BY

T. Hanumanta Rao, M.A., LL.B..

A bird's eye-view of the entire body of the existing criticism on Karl Marx reminds one of the following piece :—

The power to distinguish good from ill
And joy on earth where sadness lingers still
Give thou to those who seek thee with good will.

Eichendorff.

For example, Mr. Lang agrees with Schumpter that only by theory of economic evolution can the "necessary" recurrence of a constellation of data leading to a constantly recurring business cycle be explained. But he tries to befool the whole world into a belief that Marxism is unable to solve the problem of business cycle. To use a highly popular phrase such critics can be classified as fifth columnists. By far the most interesting and a very highly dangerous sabotage work is that of Mr. Lindsay. According to him Marxism is not a scientific analysis of the existing economic structures but an utopian sketch of an ideal society something like that of Plato or Robert Owen. In this article I shall try to expose the shallowness of this criticism by critically studying the theories of Mr. John Meynard Keynes, the undoubtedly supreme leader, and the towering champion of the capitalistic economy and those worshipping with fervent devotion before its altar.

Mr. Keynes's quantity of money throws light on his mental workings. It serves as a clue to his economic theory. The equation clearly shows that Mr. Keynes has appreciated like Karl Marx, the importance of the realistic contents in the economic theory, and logically 'human being' the centre of economic activities is brought into discussion. To state his theory briefly, if K & Kl represent the number of consumption units which the public desire to keep in cash and in bank deposits respectively, their

amounts depending "partly on the wealth of the community and partly on its habits" and the proportion of cash which the banks keep to their deposits, then the quantity of money n=p(k+r kl) p represents the price level. Marshall uses the word 'advantages' in the place of wealth and habits. The word 'advantages' is highly ambiguous and can be resolved into further self-explanatory truths drawn from experience. As Prof. Lionel Robbins has observed all our economic laws are based upon simple and self-explanatory truths drawn from experience. Hence it is but proper that we cast the quantity equation of money in such simple terms. 'Advantages' is mainly the result of wealth and also of habits. For example, a poor man cannot enjoy the advantages of investment. In other words, he does not have the advantages of investment, the reason being his poverty. Also people living in a country like India, where Banking is yet in its infancy, do have a very limited advantages of investment. Hence it will be in the fitness of things that we should replace the quantity theories of Prof. Pigou and Marshall by that of Mr. Keynes. The equation of the latter has a highly qualitative and thought-provoking significance. It corrects the too academic view of the economists that the price-levels depend solely on the volume of money balances created by the bankers. For it depends on something more, upon the people who decide as to how much they have to consume, their decisions resting mostly on their ability or wealth. If, for example, there are two communities in one of which conditions of equality of incomes and in the other those of large inequalities prevail, the former can consume more units than the latter. Thus if a given stock of Commodities are to be consumed, a proportionate quantity of money has to be pumped into circulation not blindly but in a particular direction • so that the money is received directly into the hands of the people who are physically able to consume, *i.e.*, those whose wants remain unsatisfied. This affords the clue to understand Mr. Keynes's advice that in order to rouse the economic system from the torpor of depression consumers' subsidies and public expenditure are necessary. Thus Mr. Keynes realises the importance of the unequal distribution of wealth in economic theory and his quantity equation subtly hints at this. What is this approach if not Marxian?

By far the most important contribution of Mr. Keynes to economic and monetary theory is his fundamental equations. They are criticised by all. Mr. Hawtrey charges him with an attempt to formulate a barter theory. Mr. Tjardus Greidanus accuses him for teaching mere tautology astonishingly uniforming. It will perhaps be interesting to follow this intellectual giant into this much criticised topic. According to Mr. Keynes the divergence of savings and investment from one another is the propeller of economic movemens. Before proceeding further, we have to note the special meanings he gives to these expressions. By savings he means the sum of the differences between the money incomes of the community and its expenditure on current consumption. Income includes (1) wages and salaries including unemployment allowances, (2) Interest on capital including interests received from foreign investments, (3) Rents and regular monopoly gains and (4) the normal remuneration of entrepreneurs. By 'normal' remuneration at any time he means the rate of remuneration which if they were free to make new bargains with all the factors of production at the currently prevailing rates of earnings, would leave them, *i.e.*, entrepreneurs, under no motive either to increase or decrease their scale of operations, *i.e.* to say, normal remuneration of entrepreneurs as defined by Mr. Keynes means optimum profits in the ordinary sense of the term. Thus he accepts the sanctity of profit-motive and private ownership of wealth. We shall return to this later on.

Now we can write down his fundamental equations.

$$P = \frac{E}{O} + \frac{P - S}{R} \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (1)$$

P is the price level of the liquid consumption goods. R, the volume of liquid consumption goods and services flowing on to the market and purchased by the consumers. I', the cost of production of new investment goods. S, savings, O, the total output of goods and E, the total money earnings of the community.

If W be the rate of earnings for unit of human effort so that the inverse of W measures the labour power of money, W' the rate of efficiency earnings and E the coefficient of earnings we can rewrite equation (1) as follows :—

$$P = W' + \frac{I' - S}{R}$$

$$= \frac{1}{e} W + \frac{I' - S}{R}$$

Again, if Π is the price level of the total output and P′ is the price level of new investment goods and C the net increment of goods and I the value of investment goods :

$$\Pi = \frac{P.\ R + P'C}{O} = \frac{(E - S) + I}{O}$$

$$\text{or} \quad \Pi = W' + \frac{I - S}{O} = i/e.\ \ W + \frac{I - S}{O}$$

What the fundamental equations teach us is, we have to believe that our economic ills are due to the instability of the purchasing power of money and the general price level. Hence to maintain their stability must be the endeavour of the monetary authorities. We shall show how this is a wrong conception. To keep the purchasing power of money and the general price level stable, investment must be exactly balanced to the savings. Then purchasing power of money and general price level will be proportionate to the efficiency earnings. Thus the divergence between savings and investment is the root cause of our economic malaise because a divergence between the two gives rise to windfall profits or losses which play the mischievous game of bringing about booms and slumps.

Then how is a divergence of savings and investments, relatively to one another, caused? Mr. Keynes directs all his fury and wrath against the monetary authorities. Here is an interesting passage from his *Essays in Persuasion* which gives the entire gist of his position. "Banks and Bankers are by nature blind . . . . . . a sound banker alas! is not one who foresees danger and avoids it, but one who when he is ruined, is ruined in a conventional or orthodox way along with his fellows so that none can really blame him. Like the honest citizens they are, they feel a proper indignation at the perils of the wicked world, in which they live. A Banker's conspiracy." Indeed, a wonderful way of persuasion by calling them nincompoops. This scandalous statement is against experience and reason. Mr. A. Fredrick Bradford remarks of the American Bankers that a great majority of them "are capable men,

well-suited both by training and aptitudes to unqualified standing in the profession." The same can be said of the bankers of almost all the other 'countries.' Messrs Hawtrey, Gregory, Cassel and a number of others have expressed nothing but sympathy and appreciation for the bankers.

Let us see how far Mr. Keynes has proved his charges. Perhaps, he accuses them for not maintaining the price level and the purchasing power of money—they being engrossed in maintaining the gold value of the currency (p. 279, Vol. I of his Treatise). In the first place to throw the blame on the banks is really unjust. For to repudiate this tendency of the banks is to repudiate the economic History of England and her prosperity. Was it not by the merchantalist policy of the 16th, 17th & 18th centuries that the Industrial Revolution and the attending giddy growth of wealth had been brought about? Was it not the gold standard which was solely responsible for the spread of economic imperialisms of European countries and America, especially of Great Britain, from country to country like wildfire stamping down the latter's industrial edifices and their prosperities? A policy of price stabilisation would have kept us yet in a premitive stage of civilisation as Mr. Robertson has remarked. But time rolled on. Productive pwoer increased by leaps and bounds but the power of consumption failed to keep pace with the former both nationally and internationally. Hence the economic malaise. Almost all the leading economists of the world have unanimously held that the disruption of the gold standard symbolising the economic stagnation and the tumults, has been brought about internally by the rigidity of the economic structures and internationally by the mal-distribution of gold. It could not be otherwise for international trade and the international price equilibrium are nothing but the hoax of the price mechanism projected over a wider area. Economists may differ in their opinions on as to why such a state of affairs has come about. But this much is beyond controversy. It is not the gold standard as such but the changed circumstances that have landed us on an island of troubles. To criticise the gold standard or the banks in maintaining it is like burning the house to kill the rat inside.

Let us pursue further. There are three sets of factors which disturb the equilibrium between savings and

Investments: (1) the Monetary, (2) the Investment, and (3) the Industrial. These three types may exist side by side. One may give rise to the other but they are, we are told, independent, the effect of one aggravating or counterbalancing that of another. It is clear that an increase or decrease in the quantity of gold directly affects the first category and through it the others.

Under gold standard an increase or decrease in the volume of gold, that is money, may be caused by any of these two factors, the difference between Foreign Balance and Foreign Investment and discoveries of new gold. Taking the first into a consideration, can the Banks prevent the above difference that is between Foreign Balance and Foreign Investment from affecting the monetary system? Suppose in a particular year the Foreign Balance of a country has increased. Gold will flow in. To prevent the inflow of gold the Central Bank has to reduce the Bank Rate. To support the lower rate it has to increase the volume of currency. The result of this policy is an appearance of inflationary conditions. Prices will go up and gold begins to flow outward. Exactly the same result could have been obtained even if the Central Bank keeps quiet. But there is one important difference. When it is left to natural adjustment the inflow of money will go into the hands of those trading in Foreign goods. The result will be the Industries supplying goods abroad grow in size if profitable. If not, those next in order of profitability gets stimulus. But the Bank's policy of lower rate of interest may also stimulate, industries occupying a lower position along the ladder of profitability. Hence Industrial efficiency will be disturbed by the intervention of the Monetary authorities. Thus the inflow or outflow of gold is to the international economy what the price changes is to the internal economy. It indicates the course of demand and secures the allocation of resources in the most advantageous way. Hence the flow of gold and consequential changes in the price level is an essential element in the direction of our economic activities under gold standard. But if the Monetary authorities want to maintain the stability of price level it has to raise the bank rate. A high bank rate attracts funds from abroad, leading to a kind of race between bank rate and foreign funds. If we assume that this does not happen we have to observe that a high bank rate will kill industries enjoying marginal

profits. They may desperately switch off their activities to the more profitable industries thus causing over-production in them. Prices of those commodities fall down and so profits. Then industries which are closed may appear to be more profitable. They may be reopened. By this time the Foreign Balance would have been adversely hit. Its commodities will now purchase a smaller amount of commodities than before and hence its standard of life becomes narrowed or instead of this process we may witness unemployment till wages fall down. Thus the net result is an increase of wealth has damped down our production and consumption when as a matter of fact the reverse ought to have been the case.

Mr. Keynes holds the view that all this trouble can be dispensed with if foreign investment and Foreign Balance are made to go hand in hand. How far can this be achieved? In fact the inflow of gold and the Foreign Investment play exactly the same part and raise the same problems. For, as long as the country needs the goods of other countries no question of a flow of gold arises. When a country has only commodities to export but not to import the balance must be met somehow. If gold is allowed to flow in prices move up and its exports will contract. But if the balance is invested abroad the debtor countries have to pay interests yearly and to that extent the exports of the credit for country must fall down. For example, if Britain exports to India £ X and imports only £ Y worth of commodities the difference being £100 and if these £100 is invested in India at an interest rate of 5 per cent. in the following years, England has to export only £ Y—5 worth of commodities, i.e., £ X—100—5. But if exports continue to be worth £ X in the years to come there is no means of the realisation of the surplus. Either it must be being written off or the debtor country must refuse to pay. In practice since the parties are not the same persons usually the debtor countries will become poorer and slowly its purchasing power becomes contracted. Thus the problem is not one of a choice between gold flow and the investment. but one of the ability of the creditor country to absorb and enjoy surplus. This point enables us to understand why things went on in England smoothly in spite of huge flows of gold in the 17th and 18th centuries and an abnormal increase in investments during the 19th century. The game went on well as long as the standard of life in the industrial

countries was swiftly increasing due to the progress of science and the colonies were not impoverished to the utmost. But the same progress of science and the growth of wealth have been responsible for the non-malleability of the exports to be contracted. The whole affair seems to be an inevitable process pooh-poohing the wits of the Economic Gods. The agency to be blamed is certainly not the Banks.

As a last resort Mr. Keynes recommends a managed currency instead of Gold Standard. Let us inquire into the superiority of the former over the latter. If in a particular year the Foreign Balance of the country increases, its currency will become dear in terms of other currencies. Hence exports contract and imports will increase. That is to say, as we have seen in the case of gold standard either the creditor country must curtail production or be able to absorb both home products and foreign products or if Investment is made in the debtor countries the decrease of production can be spread over a period of years or the factors of production should be shifted over to satisfy new wants. But how this works out in practice is like this. The reactions of a favourable balance are firstly a fall in the prices of the imported commodities. The home producers of these commodities incur losses as they might have already incurred the cost of production. They try to shift to the Foreign trading goods in which there will be a consequential increase in production and hence prices go down. Imports will become dear and thus a continuous movement of factors of production results. Or the economic system may settle down at an equilibrium where the advanges of the country in the production of a commodity over other countries will be lost. Now suppose that factors of production are not shiftable to the exporting industries or the entrepreneurs think that a shift may not be worthwhile if an increase in supply may likely wipe away the profits. Under these circumustances if wages do not fall unemployment will result. The purchasing power become less adversely affecting the demand for imports. As a result the export industries also will be affected adversely. But if wages can be lowered to an extent greater than the fall in prices, for otherwise the entrepreneurs do not think it worthwhile to employ them, production in home industries will continue unabated. Hence there will be no demand for foreign goods. For if facili-

ties for imports are denied exports also must contract. Thus the net result is this; both countries cannot enjoy the advantages of division of labour. This situation is brought about by the pathetic fact that the presence of profit motive and competition prevent the people from enjoying leisure instead of work when it is imperative. I have assumed in this discussion that there is no further scope for investment at home, that is, all wants are satisfied. Even if we introduce Foreign Investment in our discussion the conclusion will be the same. Let us see what happens if stability of price level is tried to be maintained. We have seen that an increase in Foreign balance will attract imports and the price level in the creditor country tends to fall. To prevent this, the Central Bank has to put up a lower Bank rate and support it by policy of inflation. Unless the lower rate of interest counteracts the fall in prices, people will develop bearish sentiment and there will be a swelling of idle balances. If the Central Bank succeeds in maintaining the price level stable it means the advantages of division of labour are not enjoyed even for a small time how so much brief it may be. The success itself is to be seriously doubted because a lower rate of interest may encourage the entrepreneurs engaged in the production of commodities in which the foreign countries compete, to go in for fresh factors of production and it is very difficult for the monetary authorities to find out and administer the necessary doses of bank rate and inflation. Even if it crosses the hurdle their power of stimulation depends upon the quantity of borrowed money utilised by the industries. Usually a large part of the required finance is supplied out of their past profits. Thus as Mr. Dekock observes there will usually be no relation between the volume or the cost of bank credit and the volume of production, employment and trade. As a matter of fact even without the initiation of the Central Bank, conditions of cheap money will be slowly making their appearance for the increased profits of the exporting industries lie idle with the banks. Hence interest rate will automatically fall down. But if the lead is taken by the Central Bank the process shall be quick but at the risk of greater friction. Thus in essence the policy of the banks maintaining the price level mean only an attempt to prevent unemployment, a method, as we have seen, which denies the advantages of division of labour and progress. Therefore, the problem is not one of the

instability of price levels or the foolishness of Banks but one caused by our economic system itself.

It will be interesting to note that the Central Bank can poke its nose only after the price-level has fallen down. For example, suppose the exporting industries have manufactured clath in November to be sold in December. Assume that for some reasons the price for cloth has gone up in December. The monetary authorities could not interfere in November or December before the sale-proceeds are realised and consequential rise in prices has become visible, that is to say, before the unavoidable vicious circle has been well on the way of formation. Hence we can safely conclude that stability of price level is a myth and pigheadedness of Banks and Bankers is a hyprocratic slander. Is it astonishing to hear Mr. Keynes advocating in his *General Theory*, a goodbye forever to bank rate and substitution of public spending in its place? The discussion might have also, I think, proved another important point, *viz.*, the real problem is one of consumption and distribution, *i.e.*, the presence of profits and not a divergence between savings and investments. For we have seen there is only one kind of investment, an investment to satisfy new or unsatisfied wants. As Mr. Moulton observes the demand for investment goods is a derined demand.

To sum up our discussion provisionally, there is no relative superiority of managed currency over gold standard. Foreign investment only divides our trouble in separate packets, the doses increasing year after year. Banks are only the pathetic spectators of this automatic game. They can do nothing in the way of alleviating our troubles. It is the manner in which we carry our international trade and enjoy its fruits that have to be blamed.

Now, we shall consider whether the banks are guilty in their relations with internal equilibriums, specially trade cycle. Mr. Keynes deals with that type the upward swing of which begins with an increase of demand due to growth of population or some scientific invention or some similar cause. Suppose there is an increase in demand for houses. Then activity in the building industry picks up steem. If there is unemployment already existing wages do not rise. But as the demand for consumption goods increases prices of the same will go up. The producers of those commodities will have enlarged profits. Hence they try to extend the scale of their activities. They

bid for more labour. Wages rise. If the building trade is more profitable they succeed in attracting the necessary factors of production or *vice versa*. Thus the final outcome of the race between the building trades and the rest decides the composition of the produced wealth. But why should the downward phase begin? The answer given is that wages have gone high. Profits have shrivelled up. But suppose wages are kept low. By the time new goods come up into the market, wages must rise or prices must fall down. Instead of doing any of these things, assume that the production of houses will be stopped and the factors of production are switched on to the production of, say bicycles. Now whether the prices of buildings should fall or may remain the same depends on how many buildings are built. If they are few they can be sold at the same price, because we can expect a small number of people able to buy. But if the number is large the prices of buildings or the prices of other products must fall down or wages must rise in the new industry. And yet, note the tempoo of production must be unaltered. This accounts for the existence of smaller cycles in major business cycles. If not, the more the investment, the greater will be unemployment. This is what Hobson means by his theory of over-investment, *i.e.*, investment leads to unemployment and Keynes only expresses the same statement in other words, *i.e.*, fall in the rate of investment has given rise to unemployment. To end this digression, what does Mr. Keynes ask the Banks to do? At what stage they have to interfere and to what effect? If the Central Bank inteferes at the outset and puts a high bank rate the new demand for houses will not be satisfied. Can it not prevent other industries competing in the labour market by tightening the terms of lending? We have seen above that the activities of the consumption-goods-producing industries is a result of the profits obtained. Even, a rise in the bank rate will not deter their activities as mostly they are financed from out of those profits. As long as the margin of profits is clear the entrepreneurs cannot be stopped. If the bank tries to create conditions of deflation we do not know whom it will hit, most perhaps all. After all the bank cannot destroy money. It will take money out of circulation leaving in its place bonds and securities. If the banks foolishly sit tight, unofficial currency will develop as the discount houses and the finance houses of England and other Euro-

pean countries have. We are having now such tendencies on a small scale in India also. As a result of the serious shortage of copper coin, restaurants and similar dealers are issuing coupons. Assuming that a Central Bank succeeds all the industries will be effected and after some rupture the economic system will settle at a new equilibrium of low prices and even then the seeds of dis-equilibrium do remain. Cannot the banks raise their rate of interest as soon as there is increased activity in the building trade which we have chosen as our example. The difficulties are many: Firstly, the increased activity in the building trade most probably might be financed out of accumulated profits. This has been the case during the 1929 boom in U. S. A. Huge reserves of profits were piled up, some nearly 200 crores of dollars, and the banks had little part in financing the boom. Secondly, the high rate of interest may also affect the industry to be developed. Thirdly, assuming that policy of discrimination is resorted to the producers of other commodities may restrict the output to whip up the prices, and lastly, they may shift over to the building industries. Thus the banks have very little power to stop the tempoo of the upward swing.

We shall next analyse the part played by the banks in bringing about the collapse. At the time of the collapse we witness a restriction of the supply of money by the banks and income inflation. We shall find out whether the banks are responsible for the outbreak of storm. The banks usually mantain a certain proportion of their deposits in actual cash. During the upward phase of the trade cycle they increase their loans to the maximum. As a matter of fact there should have been no difficulty. For as soon as the production period is complete the banks must receive the money they have invested. Thus the velocity of circulation should enable the banks to continue their loan policy. But what actually happens is entrepreneurs would be, by this time, feeling it difficult to repay their debts. It may be because dealers in consumption goods find their unsold stocks increasing or prices falling down. Thus the velocity of circulation slackens. Hence the banks feel it difficult to meet their requirement and naturally they begin to restrict the supply of loans. Thus the pessimistic views of the banks constitute only the symptom of the coming storm. Whether the banks raise the interest rate first or the closing down

of firms occurs first is a matter of accident. The reader can imagine for himself the case under reverse circumstances. The activities of the banks and bankers are only of the nature of snatching away a slice from the profits of the entrepreneurs.

What will happen if the banks do not recall their loans and continue their cheap money policy. The banks require more money to do so, *i.e.*, conditions of inflation must be created. The outburst will only be postponed just for a time. But the growth of unemployment begins. If this is not the reason a cheaper rate of interest ought to have whipped up the economic structure from the abyss into which it has fallen. Even Mr. Keynes has accepted that even a zero rate of interest would not be able to do so. Thus Mr. Gibson has rightly remarked that "a high rate is an amber-coloured light of warning of a robot system of finance and economics" or as Mr. Addis observed "the danger signal and the red light" while a fall in the discount rate may be looked upon as "the green light indicating that the coast is clear and the ship of commerce may proceed on her way with caution." Thus we have seen that the reason for the business cycle is the presence of profits and the banks can do nothing to prevent it. Nor is it just to jeer at the banks.

Mr. Keynes next turns to throw the blame on the stock-exchange market and the banks for their failure to control the same.

"Changes in the financial situation," writes Mr. Keynes "are capable of causing changes in value of money in two ways. They have the effect of altering the quantity of money available for the industrial circulation; and they may have the effect of altering the attractiveness of investment." Thus speculation in the stock-exchange market is a fruitful source of our economic ills. Mr. Keynes seems to imagine that the Financial and Industrial activities are two independent or water-tight compartments, each causing annoyance to the other. Perhaps, he forgets the history of the Stock-Exchange Market. It has been the invention of the economic wits to mobilise the community's savings for the investment and carrying the economic activities of man into unknown regions. But for it we would not, perhaps, have had much of our present material prosperity and wealth. What ailed it now to hamper our industrial enterprise? The truth is this.

Individuals who have savings try to invest them in a profitable way. Suppose profits of the mills in the cloth industry have fallen down. The value of the shares in these mills drop to a lower level. That is people try to sell these shares and reinvest the proceeds in the shares of other profitable industries. In the same way if profits in general fall down bearishness will develop. Savings deposits in the Banks swell and people run after bonds. Thus as Mr. Keynes observes on page 249 of his *Treatise*, Vol. I, "The values of the two categories of wealth traded, *viz.*, loan capital (*e.g.*, bonds) and real capital (*e.g.*, shares) will not infrequently move in opposite directions, thus partially compensating one another." Even Mr. Keynes accepts that in the long run the value of the securities is entirely derivative from the value of consumption goods. Generally th especulators are very far-sighted and well adept in Machaivellan tactics always feeling the pulse of economic activity of the community. Whenever they scent prosperous days ahead bullish sentiments develop. The activities in the stock-exchange market may not have any relationship to the prices of the current output of new fixed capital as at the particular moment. But it indicates and may strengthen the plans of the enterpreneurs. Thus financial operations is a barometer in which the movements of the industrial activities of the community can be read. It may also hasten the process. They woo each other. But the financial market can never rape the industrial market; rather has to dance to the tunes of the latter. Thus in the American Boom of 1929 the price of shares first went up quickly but as soon as the bullishness overshot the mark bearishness developed thus counteracting the unwarranted bullishness. Thus financial and industrial circulations go hand in hand, the former serving as a safety valve to the latter. The stock-exchange-market is a powerful agency—a dynamic factor and the crystallised spontaneity of our economy. Perhaps the best illustration to prove that the financial market serves as a symptom rather than a cause is the Investment Boom in U.S.A. in 1929. That boom was the reaction of the investors to the abnormal profits caused by many factors and the resultant stimulation for the expansion of industries in spite of the credit stabilisation policy of the authorities in that country in the period during the year **1922—29**. As Mr. Hawtrey rightly summarises

"the boom of the 1929 was not a wild-cat speculation, a modern south-sea bubble. It was the fruit of improved process and improved organisation."

Of course, at times the speculators might calculate wrongly. The public may develop bullishness or bearishness on their supposing the occurrence of events, which may not happen. As soon as the forecast or fears are belied, the stock-exchange market will return to the normal. For example, on the very day on which for the first time Chittagong and other centres were bombed in November by the Japanese, the values of the shares of almost all the industrial and commercial concerns in Bengal, Bihar and Assam dropped down abruptly. There was nobody in the market to purchase the shares. On the 3rd day, a friend of mine, with the intent of exploiting the bearishness of the public, rushed to the market, only to be disappointed to learn that the values of the shares have scaled up to the normal. Now we have to prove that the financial circulation does not impede the industrial one. To continue our example, on the day of bombing there was practically no business, *i.e.*, there was all bearishness. Thus the banks might have lost the income which they would have made. Suppose there is a division between the bears and the bulls in the market, the former being more powerful. The result will be a swelling of the savings deposits. Part of it may counterbalance the dwindling business deposits. Hence the banks can continue their loans. But since the entrepreneurs also might have developed pessimism, no fresh adventures will be undertaken. On the other hand, they may try to curtail the existing scale of operations, if possible. Thus the banks might have lost the income which they would have made and are dragged into the line, and made to partake in the general losses. As normal conditions slowly tend to return low rate of interest will attract entrepreneurs. Bullishness will develop. And every one will be happy.

Let us consider the opposite conditions, *i.e.*, bullishness on the increase. If there is no division, new companies will be floated. Under conditions of unequal division bulls may finance their activities out of business deposits or borrow from the banks. Exactly to the same extent the savings deposits of the bears might have swelled, thereby increasing the lending power of the banks. Thus the general prosperity is transmitted to the banks

also. The bears instead of keeping in savings deposits may invest in bonds which is equally probable or the bears may lend the money to the bulls. Anyhow the funds must reach the banks or the industrialists unless Government meddles in the affair by selling the bonds and withdrawing the money from circulation. In such a case industries feel the stringency which is transmitted from these to the stock-exchange market and the banks. Now we can understand what will happen if the monetary authorities try to interfere in the upward phase of the trade cycle. For some time the progress will be held up. Existing owners of industries shall incur huge losses. They run into liquidation. New purchasers will be able to acquire them cheaply and then the delayed upward swing begins. Thus we have proved by the whole discussion that an increase of bullish sentiments do not steal resources from the industrial circulation but the general prosperity is divided among all sections of the trades and *vice-versa*. They are so interlinked that prosperity or calamity flows from one to the other as liquid flows from high level to low level. For the stock-exchange market does constitute, if I am allowed to coin a phrase, "the democracy of wealth," which exists in the capitalistic countries, it may be to a very limited extent. As a matter of fact it is the distribution of profits among the bankers, industrialists and speculators that is responsible for the fact that industries producing luxury goods are effected by the slumps less than agriculture and it is this distribution and the trickling down their elbows into the hands of some more, of profits, which slowly bring about recovery of the economic system from the bottom of depression. It marks the demarcation-line between capitalist and fascist economies. The stock-exchange market may turn out a merchant prince from his palace with a bawl in his hand and *vice versa* and may in the long run result in a concentration of the wealth in a few hands thereby seriously hampering the consuming power of the community to such an extent that a choice has to be made between Fascism and unimaginable economic storms. But to mark out the course is beyond the wits of man. If a person having providential power is able to mark the line, it is impossible to prevent unless our economic structure is rooted out and a new edifice built on fascist lines.

Thus the day-to-day operations in the financial market represent only change of wealth and the profits of the

industry from hand to hand but in no way starve the industrial circulation. Perhaps Mr. Keynes tries to prevent the long-run effect of the stock-exchange market. For otherwise how can he explain the fact that the stock exchange boom and the upward phase of the trade cycle go together hand in hand? It can never be done by the existing Machinery, and even if it succeeds we will be making a different set of people more and more richer.

·Mr. Keynes is not blind to this mysterious conundrum. Here is an interesting passage from his *Treatise*, Vol. I, p. 254:

" The dilemma before it (Central Bank) to take type (ii) as our illustration is as follows. If the Bank increases the volume of Bank money so as to avoid any risk of the financial circulation stealing resources from the industrial circulation, it will encourage the 'Bull' market to continue with every possibility of a raising value of P which will lead to over-investment later on; whereas if it refuses to increase the volume of Bank-money, it may so diminish the amount of money available for industry or so enhance the rate of interest at which it is avoidable, as to have an immediately deflationary tendency.

The solution lies so far as the stability of the purchasing power is concerned in letting both finance and industry have all the money they want but at a rate of interest which in its effect on the rate of new investment (relatively to saving) exactly balances the effect of bullish sentiment. To diagnose the position precisely at every stage and to achieve this exact balance may sometimes lie, however, beyond the wits of a man. Moreover it may happen in practice that a rate of interest high enough to avoid future over-investment has the result of reducing present output below the optimum. In this event some disturbance to stability may be inevitable. For there is then no way out except what has sometimes been attempted both in Great Britain and U. S. A. though with dubious success, *viz.*, to discriminate in the terms of lending (either in the rate charged or by rationing the amount lent) between financial industrial borrowers.

We are left, therefore, with broad conclusion that the stability of purchasing power and output requires that the total deposits should be allowed to rise and fall *pari pasu* with any changes in volumes of savings-deposits that the terms of lending should be adjusted to the extent that

this is practicable so as to balance the effect of bullish or bearish sentiments in the financial markets on the rate of new investment."

This passage is a crucial one in all that he has written. It sums up Mr. Keynes and his theory of trade cycle, savings and investment. We have seen above that the financial circulation does not hamper the industrial needs. It represents the industrial tempoo and its tendencies in the visible future. They are, after all, the two facets of the same thing. If financial market is the cause of movements of the industrial surely we ought to be able to prevent the former from doing so. The very fact that we are unable is a clear proof that these two are parts of a whole, or two points on the circumference of a circle and to find out why a disturbance has occurred in either of these two spheres, we have to search in places other than these two. Mr. Keynes accepts that a discriminatory policy also has failed. Hence it is a serious blunder to suppose that the financial market creates tendencies of discrepancy between investment and savings. But changes in the financial market constitute the first signal to indicate that the economic system has been caught in a spiral movement. Mr. Keynes tries to find out methods, if any, to fight out the disastrous tendencies at the very outset. He comes out with the pathetic conclusion in the above passage. Future overinvestment is the inevitable result of present profits and the latter the essential condition for present production. Simple suppression of bullishness or bearishness cannot solve the problem. For it only affects the distribution of profits but not the profits themselves. It also proves another important fact. Banks have no guilty hand. They are absolutely helpless. The divergence between investment and savings is neither brought about by them nor are they able to suppress its appearance. Mr. Keynes winds up the trial by repeating his pet phrase, that banks must maintain the relationship between Investment and Savings as far as it is possible.

Now what must become of his theory—divergence between investment and saving? He is not able to prove that the divergence has been brought about by the gold standard. He has not bee 1 able to show that it is the fruit of the foolishness of the banks and bankers. He has also failed to show that financial market is responsible.

There is no use of simply saying that saving is made by one set of people and investment by a different set of people. For as long as the savings are available to the investors there can be no reason for a discrepancy. As I have indicated already, he never tries to link up this theory with the trade cycle. He starts with the appearance or prospect of profits and ends with the fall of investment and unemployment. But to say that fall of investment in relation to saving is the case of trade cycle is like diagnosing headache to be the result of throbbing pain in the forehead.

Let us accept the thesis of Mr. Keynes. Then the logical conclusion would be that we can raise the economic system from the torpor in which it lies, *viz.*, depression by increasing investment. This we must do by cheapening the rate of interest. Mr. Keynes accepts that even a zero interest rate will not stimulate production. The reason given is that the psychological fears and reactions are more than a match to the weapon of bank-rate. This seems to be against practice. For more than usually, the entrepreneurs and the speculators are a people having highly business-like qualities. They are shrewd, cunning, always alert to snatch opportunities to fill their pockets and always busy in making calculations. Let us accept this unconvincing argument. What are the other methods the monetary authorities have to try? Government must give subsidies to the entrepreneurs. But suppose they refuse to move even then. The state must work the concerns, and show profits to the entrepreneurs wro will then resume their normal activities. Not one of these remedies are suggested by our learned writer. In his lecture on Unemployment he becomes ardent believer in pagan mythology. Some mischievous Gods in the heavens do use us as pawns in their vile game. Hence let us face our troubles with philosophic non-chalance and spiritual resignation and pray some Gods to send favourable winds and nymphs to ply our boat. Is this all the fruit of his labours? Why teach us pathetic naivety? No stop here. Curiously enough, in his General theory he advocates that the states must spend on public works or better give subsidies to the consumers as Mr. Meade and others have suggested. On the one hand he says that the cause of slumps is the contraction of investments. On the other hand he advocates consumers' subsidies. A paradox indeed!

On page 281 he says that in dealing with the question of booms or slumps we are concerned with a question of a change in the working capital rather than in fixed capital; so that it is by increased investment in working capital, that every case of recovery from a previous slump is characterised. This sentence simply means as Hartly Withers has remarked "Producer's effort is cramped because they fear that they will not find a profitable market for an increased output owing to the inability of consumers to consume more." Surely we can cure unemployment and increase demand for consumption goods if fresh sources of investment are ready to absorb the unemployed. By investment we should not mean any kind of investment, because investment in any industry already incurring losses, due to unsold stocks or fall of prices, will further accentuate the troubles. Hence we mean only an investment in satisfaction of new or unsatisfied wants. But want of new investment cannot be the cause of a slump or unemployment. Also why should an investment made to absorb the unemployed lead to regular recurring cycles in future also? Therefore, the causes must be other than investment. As I have observed at the outset, the cause is hinted at by Mr. Keynes in his quantity theory of money. Enough money is not put in the hands of the people so as to enable them to purchase the consumption goods. We shall see how this comes about. Suppose the consumers want unusually enough, to save in a particular year. Since the volume of money has become less prices fall down. In our societies production is contracted at once. But suppose, the state gives the consumers the amount they need to save. Prices remain as before and there will be no alterations in the scale of operations. Thus it is the presence of profits, the difference between cost of production and price which is the propeller of our economic activities. Assume that we decide to keep the cost of production and the price same. Suppose that a certain commodity is urgently needed by the community. To increase its production the required factors of production should be transferred to this industry from the others. Now we have cut short consumption of certain commodities in order to increase that of others. If the community refuses to refrain from consumption, *i.e.*, to save it cannot have the new commodity. That is to say, saving in this sense is required when we

choose to produce new commodities and we are not able to carry on the production of both. After the new commodity has come into the market the same must be distributed, *i.e.*, people must spend more. Now let us introduce money into our example. As the volume of consumption goods has come down to a low level the prices of consumption of goods will rise. That is, profits appear. Since we have agreed that there should be no difference between costs of production and prices the surplus amount above the costs will be taken away from the firms and destroyed or we can as well keep the same with them provided they treat it as waste paper. When the new goods come into the market the prices of the old goods fall down to the level of the costs of production and new goods are sold at their costs with the result the whole stock will be consumed. Now what we have done is an alteration in the composition of the consumption goods. We can also lower the rate of wages when the new goods are in the process of production, to be increased later on, *i.e.*, when the new goods are ready for consumption. Both have the same effect. But what actually happens in the capitalistic societies is an increase of prices will, as the resulting profits are left with them, stimulate the entrepreneurs to increase the production. If they are able to spend the same to that extent others will be denied of the pleasures of enjoyment. That is to say, we shall have different standards of life in the society. But if the profits are not spent or are so big that it is absolutely impossible for their owners to spend, stocks of unsold commodities pile up, prices fall down causing losses to the business people. A number of mills will be closed. What fixes the duration of the period between the closing and the resumption of activities? It is the time taken for the total absorption of the idle stock and the prices to shoot up. That is why, the prices of the primary products are the last to recover and why Mr. Keynes argues that we have to create condition of increased demand for working capital to bring about recovery from the slump. Now we can appreciate the efficacy of our economic system when we see how at a time when wages ought to rise, *i.e.*, when the volume of consumption goods have increased, there will be unemployment and low wages and when profits are to be zero or less there will be more profits, *i.e.*, in the upward phase of the cycle, which

will stimulate competition and how competition prevents us from having the desired allocation of resources, thus bringing about a lopsided development. In the passage quoted Mr. Keynes accepts the pathetic impossibility of checking these factors as private ownership, *laissez-faire* and profit motive are the drivers of our economic machine.

We can now appreciate the advocacy of Prof. Pigou that wealth must be retransferred from the rich to the poor and the suggestions of Mr. Keynes, Meades, Dobbs and others that the state must spend on public works and give consumers' subsidies.

Now have we to regard Mr. Keynes as propounding an untenable theory? An examination of his fundamental equations will give us the answer. Conditions of equilibrium will be maintained if the rate of new investment is equal to savings. To examine these terms, savings is a piece cut from the prices, and investment constitute the cost of production as Hawtrey remarks. Thus the statement savings must be equal to investment means that cost of production must be equal to the prices. Now why not we substitute the words cost of production and prices in place of savings and investment. Mr. Keynes has argued in his *Treatise* that when a community has decided to save, prices will fall because the commodities 'bananas' which he chooses will perish. But usually most articles are not so perishable. Hence there shall be higgling in the market between buyers and sellers. Since we cannot live even for a single day without having the necessaries we shall pay even a higher price for them if we can afford. Therefore, it is imperative to tell why the consumers are in a position to save, *i.e.* to say, what brings over the savings. We have to refuse his explanation as we have seen that slumps are caused on account of the inability of the consumers to buy and since we have also seen that unspent profits will cause disequilibriums.

At this stage let us examine Mr. Keynes's definition of 'incomes'. It includes normal rate of profits, a rate which at any time leaves the entrepreneurs, with no motive of altering their scale of operations. That is to say, conditions of optimum profits are assured of their sanctity. But we have seen in our discussion that the maximum profits that can be allowed is determined by the spending power of the entrepreneurs, on consumption goods. Hence

this much only can be included in cost of production. Therefore, it will be reasonable and logical if we hurl the ambiguous word 'savings' into the air. Next as regards Investment, we have seen that a particular kind of investment can be a remedy. As Harold G. Moulton observes 'the demand for capital goods is a derived demand. Under investment cannot be reason. We have also seen how it misleads us into following a suicidal and an absurd policy. Hence it is but reasonable that we use 'price' in its place. Now we come to the conclusion that there should be 'no profits.' This is exactly what Karl Marx's theory of surplus value has taught us. We have to view our economic system in its historical and evolutionary perspective to explain the periodic convulsions which it experiences. But it is fallacious and misleading to suppose that the result brought over by the evolution of our economic system is the cause of the malais. As we have seen above, Mr. Keynes accepts this thesis. But he tries to play Indian Jugglery and equivocate to hide the truth from being grasped by the reader. On the one hand he says that the normal rate of remuneration must be the optimum, *i.e.* to say, there is no question of windfall profits, for, if at the existing prevailing rates of earnings the entrepreneurs want to increase their scale of operations, it shows that the remunerations of the entrepreneurs are below normal. In the same breath he argues that there should be no windfall profits. For if the concept of windfall profits is not brought in, he could not account for the divergence between savings and investments. We can see how he is arguing in a circle. If profits generate the divergence, the former needs explanation not by the latter but by a third factor. In the equations he says that presence of windfall profits or losses is the cause. But he could not define the term "windfall profits or losses." For his definition of normal rate of money includes windfall profits. Later on we see him preaching that savings and investment diverge from each other as savings are made by one set of people and the latter by another. How can we believe which is on the face of it quite contrary to experience. The savings do reach the hands of the investors through the medium of banks and others. Investments can never exceed savings. This fallacy has been clearly shown by Mr. Tjardus Greidanus. We can rewrite his equation as follows: Let us divide

S into S.W. savings of entrepreneurs and SC all other savings.

$$P.R. = E - Sc + Q - Sw$$

$$Q1 \text{ (Profits on consumption goods)} = P R - E O. R$$

Keynes substitutes $E - S$ for $P + R.$ & $E - I'$ for $E/O. R$

$$\text{Then } Q1 = E - S - E + I'.$$

$$Q2 = I - I'$$

$$\text{Adding up } Q = I - S$$

$$\text{Now } Q1 = E - Sc + Q - SW = E/O.R \text{ or } (E.I')$$

$$Q2 = I - I'$$

$$Q1 + Q2 = Q - I - Sc - Sw$$

$$I = Sc + Sw.$$

The equation we have arrived at shows that if I and Sc are to be equal Sw must be zero. That is, there should be no savings of entrepreneurs. Or we can rewrite the equation as follows. As we have seen the maximum remuneration which can be given to entrepreneurs is limited by their physical ability to consume, we shall make use of Sw, the earnings of entrepreneurs and Sc the normal income as I have defined above.

$$P.R = E - SW$$

$$Q1 = P.R - \frac{E}{O} \cdot R$$

$$= E - SW - E + I'.$$

$$Q2 = I - I'$$

$$Q = I - SW$$

$$i.e., \; I = SW.$$

Now we can conclude that if there is no investment to be made SW or profits must be zero, (*i.e.*) profits or income of entrepreneurs above that they can consume should be adjusted as the needs of investment require. This thesis is hinted at in his *Quantity Theory of Money*. In the fundamental equations we have it formulated. But we find him trying hard to learn the art of Indian Jugglery. He equivocates to enable himself to blackout the truth lest the crowning foolishness of ours, *i.e.*, the economic system shall be ruined by the latent sense of wisdom and righteousness of the humanity. And then like

a busy bee flying from flower to flower, he makes a thorough search of the mechanism of money to find any possibilities of salvaging our economic system and making it fool-proof. He fails at every step and naively escapes at every stage by repeating parrot-like the words that Banks must maintain the equilibrium between savings and investment. Convinced of the futility of such trials he desperately stamps the liberal policy of 'Spend more and grant consumers subsides' by the state as a theory in his General theory. Unless we give the above interpretation, his criticism of the theories of Prof. Pigou and Marshall' that involuntary unemployment is due to the refusal of the labourers to accept lower wages and the distinction he draws in his General Theory between the repairing of landlord's house and investment in the manufacture of machine cannot be appreciated. In addition as we have seen his fundamental equations are illogical for the definition of normal rate of remuneration of entrepreneurs is incompatible with separate existence of windfall Profits or losses. He is not even able to prove why Investment and Savings diverge. His outburst against Banks and Bankers is full of fury signifying nothing. For he has failed to show how they are responsible for the chronic disease which is eating away into the vital of our economic system. In short, if he refuses to accept my interpretation he must at least accept that he has propounded an absurd and untenable theory full of inconsistencies. Then why this acting behind the curtains? Why does he not plainly define his starting point, *i.e.*, the analysis of Karl Marx? Curiously enough he even maintains that his theory has no kinship with that of Mr. Hobson. Well, there is only one fact which can explain this hypocrisy. Alas! the love for truth is sacrificed before the altar of class-interests. He is essentially interested in safeguarding the interest of the capitalists. As such he could not risk people learning the truth and that too from the leader of the capitalistic economy. Thus he is not trying to formulate a barter theory, as Mr. Hawtrey remarked, but rather is afraid to openly propound barter theory and hence plays black magic. Now that he has failed in his attempts at repairing the leaking boat, will he surrender himself before Karl Marx or Dr. Scchaft or remain a pathetic pacificist and liberal? One more work a Keynetian code like that of Manu is required to com-

plete him and the whole world will be eagerly waiting for it. The somersault he has made in his views on the problem of 'Free Trade' *vs.* Protection, clearly proves that he is disillusioned about the future of capitalism. Perhaps a fascist!

Now after hearing the story of Mr. Keynes what does Mr. Lindsay say? Is Karl Marx a blind Utopian, or a practical scientist who with exemplary rigour of logic has presented before us an accurate picture of the anatomy of our economic system, its growth, its working and its efficiency?

SOME ASPECTS OF THE RECENT STRUCTURAL CHANGES IN THE CAPITALISTIC ECONOMY

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No other social institution devised by man has been subjected to more relentless criticism than capitalistic Economy. On the one hand, there is the ardent revolutionary spirit of most extreme left-wing advocates who urge an immediate overthrow of the Capitalist Colossus foisted upon the worker by 'the vindictive ruling class'; and on the other, there is the uncompromising orthodoxy of many right-wing protagonists who, believing in the perniciousness and irrationality of every other system hold that "Capitalism is the only conceivable form of social economy which is appropriate to the fulfilment of the demands which society makes of any economic organisation."[1] This line of reasoning is a plea for the restoration of an unfettered competitive regime and is ruthlessly opposed to all controlled and directed economic systems. Between these two extreme views, has grown up another upheld by a group of Economists who are not blind to the internal disharmonies of Capitalism, but, however, wish to preserve the essentials of capitalistic economy, as they apprehend that individual initiative and enterprise, would be suppressed under a socialised system. This point of view has been well expressed by Keynes who says that "Capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable."[2] Such a readjustment of our economic structure to the twentieth century environment is a formidable task of the present generation.

An objective evaluation of the recent structural changes in the Capitalistic Economy has to be based on a study of the technical, economic and social inter-relations

[1] Ludwig Von Mises, *Socialism*, p. 220.

[2] J. M. Keynes, *The End of Laissez-Faire*, pp. 52-53.

of the constituent business units. The Capitalistic economy existed long before the advent of the factory system. Not until the second half of the nineteenth century did industrialism become the pre-eminent feature of modern economy. With the aid of Technology, it held out hopes of a continuing crescendo of prospective achievements. The Capitalistic structure of industry expanded to gigantic dimensions shifting the world in a topsy-turvy fashion from an embarassment of scarcity to an embarassment of abundance. Even so early as in the seventies and eighties of the last century had begun in Europe and America the real era of Cartels, combines and trusts which considerably changed the structure of industry. The two primary economic processes of production and distribution had to be subordinated to the private ownership of wealth and accumulation of profits. Hence the prevention of the major part of potential production and consequent frustration of the vital ends of an economic system. The operation of the forces of pure competition was restrained by 'Monopolistic and Monopsonistic' tendencies which crept into Capitalistic economy. The quota systems, the tariffs and Trade agreements, the growth of giant companies, rationalisation, and various restriction schemes revealed on every side a drift towards monopolisation. The industrial entrepreneur no longer stood apart as an atom in an economic system based on private property and freedom of contract. He came to be confronted by a gradually closing front of organised social forces which have sought to impose upon him restraints in the interests of public welfare.

The realities of modern industrial life reveal a conspicuous lack of correspondence between actual conditions and those assumed by rational economics. The prevalence of irrational conditions in business may be explained by the working of two inexorable forces. In the first place, the industrial productive processes must use natural materials and so have 'to contend with the unforeseeable irregularities in their form and extraction.' Secondly, they must also deal with men as labourers, as entrepreneurs, and as consumers; and man, by his individual, changeable, and uncalculable nature, always introduces an element of chance and imponderability into industrial activity that cannot be eliminated by any endeavours at

technical and organisatory rationalisation.[3] The description of Capitalism as 'a consumers' democracy,' with 'a consumers' plebicite' and 'continual referendum' hardly bears any relation to the conditions obtaining in Capitalist societies. The undiluted individualistic philosophy of Bentham and his school has declined from its exalted position to the level of a rather disreputable superstition. Laissez-Faire, as a doctrine deserving of theoretical respect in relation to contemporary affairs is as dead as mutton.[4]. The optimism of the nineteenth century that there is a divine or scientific harmony between private interest and public advantage has broken down, and made way for deliberate planning and control of economic life.

The last Great War and the World Economic Depression have shaken Capitalistic economy to its very foundations. This explains the present-day collectivistic governmental policies which in their attempts to stabilise sorely battered economic systems have wrought far-reaching changes in the structure of Capitalistic economy. There has been a progressive abandonment of free competition and adoption of some form of industrial self-government. Great Britain, 'the classic home of Free Trade' had to switch on to a system of complete protection. Since 1929, England has traversed a long way from her individualistic moorings as seen from her present managed currency, managed foreign trade, partly managed house building policy, managed systems of agricultural and industrial production extending to Steel and Coal. Further, the development of the 'grid' under the Central Electricity Board, the reorganisation of the London Passenger Transport under the London Passenger Transport Board, the formation of Trading Estates in certain derelict areas, the Coal Mines Act of 1930, the Agricultural Marketing Acts, besides many minor measures[5] present an impressive aggregate of state intervention in industry. The chief upshot of such economic policies has been the emergence of "a public corporation controlling the industry, wholly or in part, with capital publicly owned and with a definite

[3] Von Beckrath, *Modern Industrial Organisation,* p. 200.
[4] G. D. H. Cole, *Studies in World Economics,* p. 57.
[5] G. D. H. Cole, *Principles of Economic Planning,* p. 120.

check on the operation of the profit motive."[6] These measures have brought home the truth that the adoption of some measure of Socialisation is not considered incompatible with the retention of the capitalistic system.

In America too, the faith in the self-generating forces of recovery had almost vanished. The widespread belief that the Government must intervene to rout the disintegrating forces of depression opened the way for unconventional experiments in economic policy for which President Roosevelt and his party have been responsible during the last decade. The evils in American economy since 1929 were, broadly speaking, two-fold. The first was the concentration of economic power in a very few 'oligopolies' that could control production and restrain competition in most of the heavy and in some of the light industries—steel, motor cars, chemicals, petroleum and others. The Reconstruction Programme[7] mainly consisted of four types of measures:—(a) Legislation designed to remove the evils of concentration of financial power; (b) social security legislation; (c) measures to aid the farmer; and (d) measures to strengthen labour's bargaining power against capital. It provided for 'codes of Fair competition' to be drafted on the advice of business and labour in each industry. They gave authority to business leaders to control production and prices, recognised labour's right to organise, and fixed minimum wages and maximum hours. The N.R.A. was an experiment in what has been called in England "self-government in industry." The primary aim of the New Deal Agricultural Administration was to raise the prices of farm products which had fallen much more sharply than industrial prices. It was found necessary to restrict agricultural production limiting crops as well as acreage and even to introduce some measure of compulsion with penalties for farmers exceeding their crop quotas. Secondly, the evil that pushed production below capacity and resisted the attempts at lifting the depression was a decline in the opportunities for investment. In order to remedy this evil, the New Deal tried to increase the purchasing power by expanding credit facilities through the Federal Reserve

[6] C. D. H. Cole, *Principles of Economic Planning*, p. 120.

[7] C. J. Hitch, *America's Economic Strength*, p. 79.

System and The Reconstruction Finance Corporation. The expenditure on public works undertaken on a massive scale was expected to "prime the pump," but produced only 'acceleration effects' and not 'the multiplier effects.' A sustained recovery was not forthcoming in so far as private investment and construction remained at a very low level, and unemployment did not decline below the level of ten million.

Even a brief survey of the reconstruction efforts in the two premier capitalist countries reveals their piece-meal, uncoordinated and improvisatory character. Nevertheless, these strivings provide an example of a stupendous attempt as a sort of reformed capitalism under the auspices of a democratic authority. That the world's economic life has moved irresistibly towards a collective basis is the most significant trend of recent developments. They embody an economic philosophy of collective action and 'the concept of business affected with the public interest.' The contention that industry has by its own initiative abandoned private capitalism and is well on the way to complete socialisation does not seem to be in accord with recent developments. It is too much to think that the era of capitalistic economy is rapidly approaching its end. The economic crisis is not an evidence of capitalism's failure. "What cannot stand up to a tornado or an earthquake is not shown to have broken down as a method of normal life."[8]. If we are asked to plunge into the unknown seas of socialist experiment by believers in the historical inevitability of Socialism, who can give an assurance that the rigidities and instabilities of that new economy would not outweigh the weakness of the capitalistic system under which we operate?

Those who would plan to avoid planning argue that "to-day we are not intellectually equipped to improve the working of our economic system by planning." It looks like a counsel of despair. The economic problem of want and poverty and the economic friction between classes and nations is "a frightful muddle." If we set ourselves the task of evolving order out of the present "interventionist" or 'non-interventionist chaos,' we have to agree with Prof. Pigou who accepts "for the time being the general structure of capitalism, but would modify it

[8] D. H. Macgregor, *Enterprise, Purpose and Profit*, p. 2.

gradually."[9]. An extinction of competition in industry to cure physical misery and social injustice is apt to produce "a sensuous and fibreless society" where Order will have to be bought at the price of progress. The world's capital resources are impossible of accumulation without the incentive of self-interest, the corner stone of capitalistic economy. It is the powerful mainspring to productive activity and has to be protected from uncoiling irresponsibly by the balance wheel of "co-ordination of fear and hope, the two counter-pulling emotions of economic life."[10] The institution of private property, apart from certain admitted abuses, which are not irremediable, does its job well. Recent social economics as distinguished from socialistic economics defends this right, while condemning its abuse.[11].

The case for a system approaching either rabid economic individualism or thoroughgoing socialisation of economic life is untenable. The former will make society too jungle-like while the latter will lead to the setting up of "a bee and ant-type of civilisation." The proper size for the units of control and organisation, aiming at an 'ideal out-put' must be found somewhere between the individual and the state. An important section of recent economic theory and practice has been pleading for the formation of semi-autonomous corporations within the state. Their criterion of action within their own field is chiefly public benefit; and the profit motive is not banished from their calculations but reduced to the least harmful level. The development of a rigid 'institutional self-discipline' will secure all the advantages claimed for decentralisation and an expert and representative advice. The new bodies shall not be the organs of Government for which ministers of state are directly responsible. They are to be free from direct Parliamentary and Political control coupled with their accountability to the public. The state, harassed, inexpert and overburdened as it is, cannot plan in detail; and so must 'plan planning'[12] and remain the ultimate guardin of public interest. The Central Electricity Board,

[9] A. C. Pigou, *Socialism Versus Capitalism*, p. 137.

[10] J. George Frederick, *Readings in Economic Planning*, p. 180.

[11] Father Carty, *Economics—A Social Science*, p. 25.

[12] S. A. Salter, *The Framework of an Ordered Society*, pp. 40 and 45.

the Port of London Authority and the B.B.C. are examples of such organisation, which have achieved considerably better results that could have been attained by private enterprise. The constitution of a National Economic Council out of a net-work of Economic Advisory Councils[13] will serve the purpose of an 'Economic Parliament' functioning as an adjunct rather than as an integral part of the Government. Transport, industry, unemployment, national investment, labour welfare and other nation-building activities have to be brought into accord with such a new economic structure. 'Corporative Planning' may prove a real contribution to the problem of Government of our age. The case for public operation does not rest on the need for monopoly, but on the advantages of substituting the motive of public service for that of private profit. In so far as monopoly has adverse effects upon the distribution of resources between different uses and the distribution of wealth between different individuals, it is a factor inimical to the establishment of full employment. A judicious restriction of the right of monopoly is likely to bring about a redistribution of wealth compatible with equilibrium. A selective and synthesis of the best elements of competition and individual enterprise on the one hand and regulation and control on the other can attain a position of dynamic equilibrium providing an excellent alternative to other systems. An ideal rehabilitation of economic life that can be achieved in a free state is "a community of free men and women, self-disciplined by an active social conscience, and organised for mutual service with the help of legislation devised by themselves."[14].

[13] S. A. Salter, *The Framework of an Ordered .Society,* p. 40 and 45.

[14] Sir Basil P. Blackett, *Planned Money,* pp. 33-34.

PROCEEDINGS OF THE TWENTY-SIXTH (1943) ALL-INDIA ECONOMIC CONFERENCE HELD AT MADRAS

WELCOME ADDRESS DELIVERED BY DR. A. L. MUDALIAR, B.A., M.D., LL.D., D.SC., VICE-CHANCELLOR, UNIVERSITY OF MADRAS, AND CHAIRMAN OF THE RECEPTION COMMITTEE

LADIES AND GENTLEMEN,

On behalf of the University of Madras and the Reception Committee of the 26th All-India Economic Conference, let me extend a most cordial welcome to you all and express our sincere pleasure that you have responded to our invitation, despite the many difficulties and inconveniences to which most of you were subjected. This Conference should have been held in December of last year, but had to be postponed from time to time, owing to the exigencies of the present situation. It is no small pleasure, therefore, to us in Madras that it has been possible for us to invite you to this City and to hold the Conference here, a pleasure considerably enhanced by the opportunity afforded us to meet the distinguished economists working in the different Universities and elsewhere, throughout the length and breadth of this sub-continent.

Let me at the outset express our very deep regret that we miss to-day, a genial personality whom economists all over India held in high esteem and who in the evening of his career took on the professorial robes as soon as he could discard the shackles of administrative responsibility —I refer to my esteemed friend, the late Mr. N. S. Subba Rao. His loss is a great loss indeed to economists in general, as his ripe experience and sagacious advice would have been invaluable in these stirring days.

You are meeting in the midst of a global war, the like of which has not been chronicled in the pages of human history since the dawn of civilisation. This war has clearly demonstrated not only the colossal waste of life, of the flower of humanity, but it has exposed in all its hideous reality, the baser instincts in some, instincts which had escaped notice because of their being covered by a thin veneer of so-called civilisation. The many atrocities, whether real or imaginary, that are chronicled in the pages of the history of human folly pale into insignificance before

the all-too-shocking and deplorable actualities of the present. Yet when this terrible holocaust is over, when the dust and din of this world conflict has subsided, when the passions that have been roused have been brought under control, when those satanic forces that have been let loose on humanity by the greed and lust for power of the few enemies of mankind have been finally subdued, when once again the angel of peace ushers in a new era of peace on earth and goodwill among all men—when this consummation which we devoutly pray for, is reached, it is the hope of all that a new world order will be established.

You are meeting therefore at an eventful period in the history of mankind and of this country in particular. In spite of the hopes and wishes of the few, the old order has to change and will change. Old shibboleths will be given the go-by. Old standards of life have to be altered, and the new spirit of nations as of individuals has to be implemented in all schemes of post-war reconstruction. Many excellent sentiments have been given expression to, when men's minds were shaken by the devastating effects of war, sentiments which in the abstract are beyond all criticism but which may not be as easily demonstrable when peace is ensured and nations begin to turn to the constructive side of rehabilitation. The Atlantic Charter was naturally hailed as the Magna Charta of human freedoms, for it was conceived on a proper appreciation of human values. This Charter, which has been endorsed by all the United Nations, states in its fifth clause that one of the purposes of post-war policy must be—to quote the actual words—"to bring about the fullest collaboration between all nations in the economic field, with the object of securing for all improved labour standards, economic advancement and social security." It would appear therefore that the economic reconstruction will be based on a global policy and not on the basis of the demands of individual nations. If such indeed is the future that is envisaged and if there is the remotest possibility of its being implemented, the world would indeed be metamorphosed into a kingdom as near to the Kingdom of Heaven as any that human intellect can visualise. Truly, in the words of a great American, Dr. Buchanan, "Suppose everybody cared enough and everybody shared enough, would not everybody have enough? There is enough for everyone's need, but not enough for everyone's greed."

Let me not be unduly pessimistic or optimistic but try to be a realist in national and international affairs of state. Ere the ink on the pages on which the Atlantic Charter has dried, other voices are heard, voices of those who participated in this Charter of the United Nations, which give us cause for serious misgivings and which sound a note of warning. In the words of Praed—Let not the policy of Governments be "To promise, pause, prepare, postpone, and end by letting things alone!" Even when on the mightiest of battlefields, the youth of many nations are fighting side by side in joint comradeship and saving distant countries from the horrors and realities of modern warfare, the bar sinister of colour and clan is being raised by the stay-at-homes, to whom moral values make no appeal. I do not know if the Mayor of the South African City who boastfully said he would not sit in the same row as the coloured people of that Colony professes Christianity in public, but if he and those who think with him do proclaim their faith in that religion, I would beg of Jesus himself not to venture forth thither in this yule tide season, for he stands the certainty of being ejected without notice or ceremony!

But let these incidents, however unpleasant and disturbing they be, not overawe us or deflect us from our straight path. Let us realise that we cannot rest content on Charters but that we have to face the task that lies ahead of us, the constructive task of revival and reorientation, such that we may with a firm resolve safeguard the future of our fellow-countrymen and build up a society which shall be ensured freedom from want. And in this task I would beg of you economists not to be deflected by the temporary upheavals here or elsewhere of the present, by the recollection of vain regrets of the past, by the acerbities and vexations of the many controversies that abound around us. Therein lies the danger, a real danger, of losing ourselves irrevocably in the quicksands of prejudice, passion and polemics. We all know that many are the Chapters in the history of our country which might well be labelled 'the Might have beens of History.' In every sphere of national activity, we, the Government and the people alike have committed blunders. Lost opportunities there are in plenty, in the social, political and economic spheres of life and vain would be the controversy, if responsibility were to be apportioned between Govern-

ments and the people or between different sections thereof. I would beg of my countrymen to turn their eyes to the future, to take stock of the present and so to plan each in his own line, so that we shall carve for ourselves a place under the Sun, wherein our countrymen will be vouchsafed that which any human being has a right to expect.

And to whom can we turn more eagerly than to such distinguished gathering of economists who will ultimately have to give the lead—I hope a correct lead to set their house in order and to implement the many schemes of post-war reconstruction which are now under preparation. It has been a strange puzzle to me, why for so long a period neither the Government of the day nor the public realised the need for expert advice, the desirability of consulting Economists in large schemes of national development. If you will forgive me for the remark, may I not say that it was not a little due to your own reticence, to your own natural modesty, a habit of those confined to academic activity and by no means a crime—that it was the shyness on your part to play the rôle that is yours by right that probably was responsible for this unfortunate state of affairs. We both belong to professions, where the lay public think they know better and are better judges of what is needed than we can be! It is, however, gratifying to note that at long last there is some sign that Governments are beginning to realise the value of the help and advice of economists and for the first time in 1941, a Conference of Economists was summoned to the capital City. I hope that in the larger problems of post-war reconstruction your help would be fully forthcoming and your advice would be fully availed of.

From another point of view, it is equally gratifying to note that Capital and Industry is taking advantage of the advice of economists of repute—a step that would have yielded them greater profit had they taken advantage of it earlier. Gratifying as these two trends are, let me sound a note of warning—or shall I say a note of caution—which is probably wholly unnecessary. We know the trends of Governments as of Capital. The rôle of the economist is at all times a difficult one and the public look to you to play that rôle wisely and well, without fear or favour, with no prejudices and no passion. The Economist in India, as indeed in any other country, has to steer clear of the Scylla of officious interference of Governments and

of the Charybdis of subtle blandishments of Capitalism. Brought up in the stern atmosphere of scientific thought and accuracy of inference and expression, you that have adorned the Chairs at many Universities will I know give of your best and free yourselves from either of these entanglements.

One of the urgent problems that will naturally engross your attention is the problem of post-war reconstruction in India in the many phases of its national activity. I will not refer to the political aspect of the reconstruction problem, not because it is not the most important of all our problems, not because it has not a dominating influence over many aspects of post-war activity, but for the simple reason that there are many who are taking a leading share in such discussions and at least in this season we are treated with a surfeit of addresses, admonitions and resolutions. In one sense perhaps it is not a disadvantage to think of post-war social and economic problems without the embarrassment of party politics and there is some reasonable hope of agreed conclusions which may be of value to any Government of the future, provided the basis of such recommendations is the welfare of the common citizen, who is the real backbone of the Nation.

There are no doubt some who are unable to see this point of view and with them let us agree to differ pleasantly. Post-war Reconstruction Committees have been constituted for many of the social and economic aspects of our national life and already plans are being drawn up. I should like to see in the reports of these Committees both the ideal and the practical aspects of reconstruction emphasised. It is little use presenting a Nation with a well-drawn up scheme of social security in all its diverse aspects of health, education, freedom from want and insurance against disease, dirt, squalor and ignorance, if such schemes are to be given effect to at some distant future after the War and only when the resources of the country warrant the implementing of such schemes.

There should be a plan drawn up, but the first steps to implement that plan, the spade-work needed should be considered now, if any real change is to be effected in the post-war world. It is idle to draw up a long-range plan for free and compulsory education of our children and to fill the picture of a beautiful edifice that will be erected 30 or 40 years later, if no attempt is now made for a systematic

survey of the field of education, the location of schools, the training of teachers, their availability in large numbers and the consequential changes that have to follow are not likewise planned and put into operation in quick succession. Similarly large schemes in regard to Health Insurance, the eradication of the devastating epidemics of the present and the guaranteeing to every one the facilities for medical relief will be but schemes on paper, if other factors such as the availability of medical personnel, the opening up of large hospitals, the training of specialists and the implementing of large schemes of sanitary engineering which will all be taken on hand in a serious and consequential manner even during these hard days of war.

I have not referred to the many other problems of post-war reconstruction, for I know those problems are constantly in your thoughts and you will deliberate on them. The expansion of Industries, the opening out of many new Industries, whether they be the Heavy Industries or Key Industries, the future of trade and commerce, the relationship of Capital and Labour, the exploitation of the mineral resources of this vast sub-continent, the rôle of Government in the starting of such industries—these are subjects which doubtless are receiving the attention of many of our eminent countrymen. Let me in this connection emphasise the need for careful research and planned methods of enterprise. At a time of inflation many industrial concerns may be started by individuals, which under normal conditions may not survive the fierce onslaught of international competition. The world all over is moving towards a merger and it is your duty, if you feel convinced of it, to advise Capital and Industry to pool their resources, so to share the profits and losses that the enterprise itself may survive the shocks of impact from any quarter. At the same time, the danger of large combines and possibility of exploitation should be guarded against.

The time is also come when better understanding and a more intimate association of interests should be established between Industry and Labour. I dream of the day when Capital and Labour will work in harmony. Let us realise that money is not everything, that the prosperity of a country depends on the manner in which we attend to the human capital, that a happy, contented, prosperous and healthy peasantry and labour is an asset to any country which it can ill-afford to neglect. Too long have advanced

industrial countries in the West been accustomed to view labour as a means to an end, the building up of an industry or the enlargement of capital. Too long have men pleaded financial insufficiency for the many long-neglected reforms to be put into operation, but this war has opened the eyes of many and the question of finance cannot be pleaded as an excuse for shelving many of these social security plans. This idea was graphically expressed by Mr. Arthur Greenwood in the debate on the Beveridge Report in the House of Commons when he said: "There are those whose eyes are turned towards harsh restrictions on expenditure, what is called cutting the coat according to the cloth—a useless expedient if the coat is made too small to perform its purpose. The future of this country," he continued, "does not depend on the Bank of England and the Big Five. At their best the Banks are but the lubricant oiling the wheels of production. The future of this country and of the world depends not upon money-changing, book-keeping and accountancy, but upon what brains and brawn can produce out of the bowels of the earth, from the surface of the earth, by processes of manufacture, and by skill in trade and commerce. Counting the shekels does not produce wealth. Real wealth is the production of organisation, executive ability and manual labour."

If this is true of Great Britain, how much more accurate is it of India, where many opportunities have been neglected and where there is greater scope of a thorough reorientation in regard to plan and policy. If India is to achieve a higher standard of living, she has to develop and with a quick pace, industrially and agriculturally. The rôle of communications, the place of irrigation schemes for reclaiming barren areas and making them fertile, the implementing of those schemes of power, whether Hydro-electric or otherwise, over the whole sub-continent to foster the growth of industries and agricultural enterprise so that the benefits of technical progress may be shared by all regions—these surely afford great scope for constructive thought and planning.

If material prosperity in the shape of industrial and agricultural development is important, more important is the development of human capital. The attention that has to be devoted to education and public health and for which economists will have to suggest ways and means for financing such schemes on a generous and expanding scale would

prove the touch-stone of any genuine scheme of economic reconstruction. It is not often as clearly realised as it ought to be by those who are more keen on dividends for their investments, that expenditure on education and public health will benefit not only the country, but the very enterprises themselves, ensuring their efficiency and success.

The recent scheme for training Technicians as a war measure should be an object lesson to the Government and to Industrialists alike. Too long has education been regarded as a non-remunerative enterprise and financial purists have confined themselves to the delectable task of limiting educational expansion to the available resources of current revenue. This has led to such a shrinkage of educational activity in this country that its present progress and achievement may more properly be compared with the position of most European countries in the beginning of the last century. It will be for you, economists, to make it clear that any large-scale expansion and reorganisation of education, primary, secondary, University, technical and technological, is possible only if a new policy of subsidising these national schemes of reconstruction through large loans raised for such purposes is adopted. The same is true of problems of public health. The large waste that is involved by sickness, disability and other causes in all large enterprises is so great that it is disheartening to note that little of large-scale attack on diseases, endemic and epidemic, has been launched with a view to totally exterminate their possibility. One thing is clear; we cannot allow our countrymen to live in a state of ignorance or in conditions of public health and sanitation wellnigh bordering on the inconceivable. The responsibilities which will devolve on the State, the manner in which finances are to be raised, the apportionment of expenditure on the different projects of economic reconstruction and the sweep of the economic offensive to be directed against poverty—surely all these are tasks which should be undertaken by us, citizens, and in the proper fulfilment of which we require the advice of experts, who are disinterested and humane. I trust that your Conference which is discussing some of the problems pertaining to the war period will not neglect the equally important problems of post-war development. Perhaps in a post-war period, we may not have those limits on industrial, agricultural and educa-

tional expansion which are imposed through conditions of war. This in itself is a hopeful prospect which should buoy you up to constructive activity.

There is one aspect of the problem which deserves serious consideration and which if not taken due note of at present is likely to lead to a difficult situation in the future. I was pouring through the pages of one of your economic journal, the Annual Number of the *Commerce*, and while it gave me a sincere glow of pleasure to peruse the excellent articles which described in detail the post-war reconstruction plans and objectives of many of the Provinces and States of India, it also awakened in me apprehensions of possible impending difficulties, trials and tribulations. Whatever may be the forms of Government which this great sub-continent may ultimately decide to have, one thing cannot obviously be ignored, the need to preserve the economic unity of India as a whole. Recent events have emphasised this aspect of the question and it is none too early to see that these schemes of post-war reconstruction are so shaped that they from a co-ordinated whole, a well-knit mattress of closely interwoven enterprises, each unit contributing its own share and all benefiting by that larger and nobler loyalty of "each for all and all for each," such that India as a whole may take its rightful place in the comity of nations commanding respect and admiration alike, by the picture of united effort it may present.

I shall not detain you much longer. As one interested in University education, it is my hope that Economics, which at present is a popular subject with all students, will occupy even a more prominent place in academic studies in the future. I hope it will be possible to expand and extend those special fields of economic study, which go so largely towards an appreciation of applied Economics. The larger part that Statistics will be playing in the future of any country need hardly be emphasised. The study of economic Geography, of modern economic History, of Statistical and Scientific methods of economic study, not to speak of research in many of the economic problems of the day, will, I trust, find a more important place in the revised curricula of economic studies; and the Universities will, I feel sure, be glad to have your advice in such schemes of expansion.

Let me once again extend a most cordial welcome to you and express the hope that you will enjoy your stay

here; have fruitful discussion of the subjects that you have chosen for consideration and taking the will for the deed, forgive us for the many shortcomings of which, we of the Reception Committee are painfully aware. It gives me no small pleasure to welcome into the presidential chair, my esteemed friend, Rao Sahib Dr. B. V. Narayanaswami Naidu, a distinguished economist, who by his unostentatious and enthusiastic work for the growth and success of this Economic Conference for several years has fully earned and rightly deserved this signal honour that you are doing unto him to-day. At the time of his election to the chair, he was a distinguished member of the staff in a sister University. To-day, I rejoice to welcome him, as he is connected with this University in a more intimate capacity. I feel sure that under his wise guidance your deliberations will be marked with harmony, sobriety and serious thought.

In conclusion, let me once more emphasise the need for all of us to keep in view those lofty ideals, those noble thoughts which alone can inspire us to majestic concepts of duty and guide us along the path of rectitude and service. Ephemeral are the days of the power proud and the purse proud, of the race proud and of those who have not imbibed the true lesson of History. Battles may rage, earthquakes may shake the very earth, tempests may raise their storm over humanity, but the genius of man will weather all storms and all devastation provided it rests on the safe and unimpregnable foundation of the eternal laws and builds up human society on the basis of those eternal verities of life. In the words of a great Historian "one lesson, one lesson only History may be said to teach with distinctness. The world is built on moral foundations. Institutions perish, customs change and alter, Kingdoms rise and fall. The moral law alone is enshrined on the tablets of eternity."

PRESIDENTIAL ADDRESS

BY

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LADIES AND GENTLEMEN,

At the outset I wish to express my grateful thanks to my fellow economists for having chosen me to preside over this year's session of the All-India Economic Conference. In the past this chair has been filled by eminent and distinguished economists who have nobly served the cause of this great social science. Conscious as I am of my many shortcomings I take this honour as a symbol of your kindness, and trust that one and all of you will extend to me your hearty co-operation and make this Conference a success.

INDIA AND POST-WAR RECONSTRUCTION.

The need for a realistic outlook :—The whole world has been thrown out of gear by a terrible war that has been forced upon it by Totalitarian Tyranny. It has greatly upset social order and human life has been made miserable by want, destruction and death. So great has been the suffering that all sane people have sat up to think of a new world order in which we shall be free from the dangers of war and its manifold miseries and the human race will be ensured a safe and progressive future. But the visions which the war-weary people project of the future might tend to Utopian idealism. Politicians, in particular, make lavish promises to so reconstruct society that there will be no unhappiness or disorder therein. Much harm will be done by glib and unconsidered talk. We have to base our hopes of the future on the realities of the present and to ensure social peace and prosperity after the war, it is best that we consider with the greatest care the many factors that are likely to lead to social upheaval in the years to come.

The battle front and the home front :—The present war has been such a total war that not only the

armies on the battle front but the people on the land, in the factories and their very homes have been involved; and for all practical purposes there are few who do not contribute one way or other to the progress of the war or its end. To keep the soldiers in battle-trim on the fighting front many times their number must labour in the home front for their equipment and efficiency. Further, the war we are now waging has endangered the lives of the soldiers as well as those engaged in the production of essential materials for the prosecution of war. The war is also being so fought with lightning speed that unless production keeps pace with the rapidity of battle movements the war can hardly be won. Consequently industries have been so mobilised and modified that they have achieved unprecedented dimensions. The war has also stimulated the urge for national self-sufficiency rendering normal international trade wellnigh impossible; and as a result goods which cannot be imported have come to be produced and when such production has not been possible substitutes have been developed. Altogether the world war has compelled a stupendous expansion of production unprecedented in the annals of economic organisation, both in kind and in method.

The industrial trends of the war would make post-war reconstruction a dire necessity. In the last world war Indian industries had to be greatly expanded and new industries had also to be started; but when peace came foreign competition was so severe and the dumping of foreign goods so acute that many of the industries collapsed causing great social confusion. Belated protective measures on an extensive scale had to be improvised as a remedy for industrial collapse. Another danger which arose after the last war owing to the want of prior planning was the problem of widespread unemployment with its large train of attendant evils.

Need for pre-planning and post-war reconstruction :—In the present war we have need therefore not only to win the Victory we seek against the enemy but we have also got to win the peace which will ensure social and industrial prosperity. We have need to foresee and prevent the dangers that lie ahead such as those that arose after the last war; and to this end it is best that the problems of reconstruction are anticipated and met in advance, with a clear vision of what we wish to achieve and what we seek

to avoid. It is also essential that we tackle the post-war problems *in toto* right now while the danger is not yet upon us. For this purpose we should have a clear enunciation of the plans for post-war reconstruction. It may be said that a consideration of the future might divert the minds of our leaders from the present and thereby postpone the day of Victory. But it is easy to see that if we know what we are fighting for, if the ideals and objects we wish to achieve by this war are clear and determined we will derive from our peace aims an inspiration as strong as any which lovers of freedom can wish for. The plans for war were laid by our enemies while we were at peace and there can be nothing strange in planning for peace while we are yet in the throes of war. A plan for peace is as essential as a plan for war.

India's economic position has been considerably changed by the war. Her foreign trade has experienced a rude shock. Industrial production has been diverted towards the supply of war materials. New industries have been started for the supply of goods formerly imported from other countries. Many commercial crops cannot now be exported and the production of food crops has had to be increased owing to the stoppage of imports. Many of these tendencies will be fruitful of good if they are controlled and directed towards the peace needs of the country; but they must first be protected against the stress and strain of post-war changes in relation to Indian fiscal economy which in particular is quite vulnerable to international price levels.

If the desirable trends we now see in Indian economy were to continue, a reconstruction plan should be devised so as to take into account the permanent needs of the Indian people in relation to their progress and development. After the war we have got to maintain the demand for industrial products. We must endeavour to retain and extend the internal and external markets for the manufactures which we have developed in recent years. We have to provide adequately for the employment of skilled industrial workers now engaged in war industries and wherever necessary open up alternative avenues for employment. Further I believe that there is also a need for revision of our Exchange Policy so as to enable India to maintain the position of a creditor country which she has attained as a result of recent events. India will have to

face an increased expenditure and this will greatly affect her financial position.

After the war a definite threat to Indian industry and agriculture will be made by post-war depression; and as such depression is likely to be universal, any reconstruction plans which we project must also take into due consideration the nature of world economy in post-war years.

Reconstruction plans must essentially emanate from the Government and the Government of India seem to have been impressed at an early date by the magnitude of the problems this country has to face after the war. The Hon'ble Member for Commerce who became greatly interested in planning for the-future appealed in March, 1941, for postponing public works undertakings by Provincial and other Governments to the post-war period. Such postponement of capital expenditure will to an extent modify the severity of the dislocation to industry arising from the end of the war, but it will not by itself ease our economic situation. In evident realisation of this, the Hon'ble Member speaking to the Central Legislative Council referred to a full-fledged reconstruction plan as a necessity. As a result the Government decided to form a post-war Reconstruction Committee and it was convened on 23rd June, 1941, under the chairmanship of the Commerce Member and it was named the Reconstruction Committee (co-ordination). Four sub-committees were also set up for planning and they were :—

1. Reconstruction Committee (Labour and Demobilisation),

2. Reconstruction Committee (Disposals and Contracts),

3. Reconstruction Committee (Public works and Government purchases), and

4. Reconstruction Committee (Trade, international trade policy and Agricultural Development).

A Consultative Committee of Economists drawn from various universities in the country has been formed. The Reconstruction Committee will guide these Sub-Committees in their work. The recommendations of the committees will be considered by the Governor-General-in-Council and such action as may be considered necessary will be taken thereon.

Let us consider the work that lies before the various Committees formed.

The Committee for Labour and Demobilisation:—This committee should inaugurate a proper statistical survey relating to the increasing volume of employment in the industries primarily affected by war demand, *e.g.*, ordnance and clothing factories, textiles etc. The committee must also investigate how the labour at present employed in industries supplying war materials can be retained by those industries in the post-war period and if many workers are to be dismissed, a plan for starting relief work must be evolved. The committee should keep in touch with the Army authorities so that their plans of demobilization do not accentuate the problem of unemployment on the cessation of hostilities. As far as possible the soldier must be reinstated in his former employment and for this purpose the army should have accurate records of the former occupations of the recruits. Lastly it is necessary to consider carefully how far the existing facilities for providing information to people in search of employment are adequate in the light of an employment crisis as may confront the country at the end of the war or thereafter.

The Committee for Disposals and War Contracts:—In order to prevent the economic structure from being demoralised by the sudden cessation of war production the committee has to devote its attention to taper off war production as commercial demand expands. The committee should interest itself in the problems connected with orderly disposal of stocks already on hand or accruing under war contracts so as not to break prices and check incipient demand for new production manifesting itself.

The Committee for Public Works and Government Purchasing Policies:—After the war suitable public works policies should be inaugurated so as to round off the corners left by the falling war demands. Before inaugurating such public works each on their own merits judged by the different degrees of employment direct and indirect the types of labour. materials, etc., involved the committee should also consider suitable housing projects and methods for stimulating private capital to take up public works policies.

The Committee for International Trade Policy and Agricultural Developments:—The committee has found

that the national income of India is liable to sharp fluctuations through changes in the level of international prices. Besides this, the gradual improvement in shipping position with the close of the war will tend to increase foreign competition. As a result of this the quasi-monopolistic position of many industries will be affected and will give rise to the question of redundant plants and also the question of tariff measures to safeguard such industries.

After the war the changes in the international trade and tariff policies of different countries will greatly affect the position of the growers of crops such as cotton, wheat and oilseeds. In the post-war years the committee has to take into consideration the effects of foreign competition and the possibilities of diverting agricultural production along new lines if developments in international trade are such as not to allow exports to other countries as before the war.

Meanwhile the Government has started a compulsory Savings Scheme and linked it to the excess profits tax assessment. The Finance Act lays down that "if any excess profits tax charged under the provisions of the Excess Profits Tax Act 1940, at the rate of sixty-six and two-third per cent., a further sum not exceeding one-fifth of the amount of the said excess profits tax is deposited with the Central Government, the Central Government shall repay at such date and subject to such conditions as it may hereafter determine so much of the said excess profits tax as shall be equal to one-tenth of the amount thereof or one half of such further sum deposited whichever is less." The object of this scheme is to provide for industries a reserve for post-war re-equipment and post-war recession of business activity. During the debate on the Finance Bill it was pointed out to the Finance Member that the assessees should have an idea beforehand about how the amount collected is to be repaid. The Finance Member undertook to have the matter examined.

The committee in the light of the suggestions placed before them by the consultative committee of economists thrashed out a programme of work for the duration of war. The committee also gave its views on problems connected with tariffs, subsidies and protective duties and made suggestions relating to the extent of technical conent to be given to the doctrine of protection by tariffs or bounties (including anti-dumping measures) in the post-war

period. It also suggested modifications in the machinery of tariff making in the post-war period and expressed its views on the relationship between protected industries and the state in respect of control of profits, participation in profits, social conditions of labour, apprenticeship and administrative supervision and state control of protective industries and prices of protected articles during the period of protection. "The committee appraised the economic consequences of the existing rates of duty and the extent to which the technical structure of the tariff required modification in the future. Lastly, the committee examined the economic consequences of war time export and import regulation and the extent to which they could be or should be continued in the post-war period." (*Capital*, May 28, 1942, p. 748).

Regarding international trade in the post-war period the committee took full account of the Atlantic Charter and various other alternative trade policies such as Imperial preference, bilateralism, conditional or unconditional most-favoured nation treatment, etc., As regards internal trade the committee suggested that the removal of numerous barriers for inter-provincial trade will undoubtedly cause much development in the internal trade position. If such impediments as octrois, transport difficulties, lack of advertisement and propaganda are removed the internal trade will develop rapidly.

Agriculture :—The committee agreed that agricultural prices may decline after the cessation of hostilities and recommended steps to meet the situation. It has chalked out schemes for dealing with the problem of sharp rise in prices after the cessation of hostilities.

The committee has investigated the following topics in regard to the long-term adjustment of Indian agriculture to Indian and future world trends :—

1. The adhesion of India to international agreements for the 'orderly marketing' or valorisation of staple crops (namely wheat and cotton, etc.)

2. Crop planning in relation particularly to.

i. The problem of finding alternative crops in place of those for which there is likely to be an inelastic or diminishing demand, namely, short staple cotton and the problem of finding alternative uses for existing crops.

ii. The production of secondary crops for development of existing and new agricultural industries (such as the canning industry).

iii. The nutritional problem and in view of population pressure the production of heavy yielding crops such as rice, potatoes, pulses and soya beans.

iv. Developments of mixed farming and marketing of dairy produce at distant places.

v. The extent to which each region should aim at self-sufficiency in regard to agricultural products.

Besides the committee has considered the problem of planning agriculture in relation to (1) an examination of the structure of rights and interests in land including problems of tenancy, tenure, delete and transfer of land, (2) the problem of unemployment and under-employment among cultivators with special reference to mechanised farming, (3) improvement of the economic position of agricultural labourers, (4) social experiments in collective and co-operative farming as alternatives to individual cultivation of the soil and the degree to which government can undertake or encourage such experiments, and (5) the co-ordination of efforts aiming at preserving the heritage in soil, forests and water such as erosion control afforestation and improvement in agricultural statistics was also considered. Two sub-committees were appointed to examine in detail the various problems mentioned above and submit a report of their findings.

Apart from this network of committees organised for post-war reconstruction there are many others started mainly for the purpose of whipping up war production and for harnessing every available material for war purposes. Not only did the Government devote much time for harnessing the resources to production but it also wanted to keep up the foreign trade of India undisturbed.

Among the earliest war-time investigations undertaken was one about the extension of the foreign trade of India and the finding of alternative markets for Indian products which were lost as a result of the war. The continental markets for Indian products, *e.g.*, groundnuts, were completely lost. So the government wanted to discover new markets in the United States of America. With this object Dr. Gregory, the Economic Adviser to the Govern-

ment of India and Sir David Meek, Indian Trade Commissioner in London, were sent to discover some possibilities of India building up an export trade with U.S.A.

As a result of the war Indian export trade has fallen by about 30 crores of rupees and this has not fallen of a sudden. The tendency for the shrinkage of the export trade was noted from the beginning of hostilities in September 1939 and reached the culmination point with the fall of France in June 1940. Though some of the exports, *e.g.*, pig iron, etc., cannot be kept up they are increasingly absorbed by the Indian industries themselves producing for war purposes. But the loss of markets for our staple commercial crops gave a rude shock to our export trade. The main purpose of the Gregory-Meek investigation is to repair the loss of markets in Europe by the discovery of new markets in the United States.

India's export of groundnuts to Europe in normal times amounted to Rs. 8 crores. The biggest purchasers of groundnuts were the Netherlands, France, Germany and Belgium. When these States came under the domination of Hitler our foreign trade was affected to the extent of Rs. 8 crores and the groundnut-growers were exposed to severe hardships. The United States is a huge producer of groundnuts and is capable of vast expansions and our expectation to export groundnuts to U.S.A. is bound to be vain.

The prospects for the export of raw hides and wheat to U.S.A. are also in a similar position. America is itself a great producer of raw hides as a bye-product of the meat packing industry and India cannot think of building up an export trade on these lines in view of the severe competition. As for wheat exports to United States the report says that the Canadian and Argentine competition will be too much for Indian wheat to grapple with.

The report is mostly negative in its character except in emphasising the prospects for the exporting of some Indian products for which India holds a semi-monopolistic posion. India is a very big producer of Mica, Shellac and Manganese. She produces the best quality mica in the world and most of the mica produced was exported to other countries. The armament programme of the United States of America calls for commodities such as manganese, shellac, mica, cocount shell char and India is in a position to supply all of them. The Government of the United

States of America has formed a Mica Purchasing Commission and this indicates the importance of mica for war purposes.

Alongside the attempts to discover markets for Indian products which have lost their markets in Europe, other methods were also employed in India to maximise war effort. The first of such attempts was the Eastern Group Conference. A permanent Council of six members was formed to facilitate the carrying out of the policy of the Conference so that the task of supplying the troops in the Eastern group area (whether in the field or in their own countries under training or for local defence) may proceed as smoothly and with as small a drain upon shipping as possible. The Council links up the Governments concerned so that they can conveniently operate through the medium of a body in constant session. The Council acts on behalf of the Governments which have appointed it. The Council's main purpose is to facilitate the supply of materials to the fighting forces and it has no authority to issue instructions to the Government of India or any other Government.

The Government of India has started a War Resources Committee to investigate the methods by which the different resources of the country can be fully mobilised for war purposes. Its advice is always at the disposal of the Supply Department and we can understand the great utility of the advice by the impressive value of the war orders. The total war orders for jute bags, etc., during the period amounted to 757 lakhs of rupees, the war orders for military garments (for the financial year 1941-42) amounted to Rs. 32 crores and the war orders for leather manufactures amounted to nearly Rs. 19 crores as compared with $4\frac{1}{2}$ crores during the year 1940-41. Chemicals and foodstuffs were very much in demand by the Supply Department and war orders for those commodities have done much to develop their production.

The U.S. Technical Mission:—But by far the most important landmark in the devices for actually augmenting the supplies of materials required for war purposes is the visit of the United States Technical Mission. The Committee had a distinguished personnel (Dr. Henry F. Grady, Col. Johnson Arthur W. Herrington, specialist in the production of armoured vehicles; Henry E. Beyste, a specialist in factory organising and Dirk Dekker, a

specialist in transforming man power into labour power.) The Mission was not concerned with the post-war problems but mainly intended to make India the arsenal of the East.

The Mission while it was in India visited many factories producing materials for war and also interviewed many industrialists and businessmen. The Mission found that to tackle the two-fold problem of augmenting the production of certain peace-time commodities required for war and for converting peace-time industries to new war production the power should be strong and centralised. The Mission made the following recommendations without committing the Government to the plan :—

(a) High powered control independent of established Government agencies, on the American model,

(b) The separation of production and supply and establishment of a new department for the former,

(c) The division of the supply department into two parts one dealing with production and the other supply.

(d) The establishment of a War Cabinet with a strong secretariat to control War production in all its phases. This War Cabinet should consist of members responsible for production, transportation and communication, defence and finance.

"The Mission recommended a further investigation into the possibility of producing power alcohol; further measures to extend the availability of electric power and to rationalise the use of electric power; the expansion of the steel industry; the rationalisation of plants producing munitions; concentration in respect of aircraft and ships upon repairs rather than new construction; the manufacture in India of a general purpose military radio set; measures to stimulate the production of aluminium, measures to conserve tin and timber, adjustments in the arrangements for treatment of timber and the acceleration of the production of refined sulphur."

The Mission was favourably impressed with the excellent potentialities and quality of Indian labour. Given satisfactory working conditions Indian labour will turn

to be skilful, dependable and industrious. The augmentation of the labour training programme in special institutions and factories will increase the supply of skilled labour and influence the output of factories.

To reiterate, the Mission had no post-war plan but only suggested methods for increasing the production of war materials by better control, supply of instruments and skilled technicians etc.

In July 1942 an attempt was made to associate labour and employers in the task of organising war production. A conference of the representatives of Central, Provincial and State Governments and organised employers and workers was held in the third week of July. A standing Advisory Committee was set up to advise the Government on various labour problems as they arise. The decision to have a standing Advisory Committee is in agreement with the recommendations of the Whitley Commission which decried the Government's policy of consulting employers and workers indirectly as 'wasteful of time and energy.'

During the war the measure is calculated to promote the maximum war effort and after the war the same organisation may live to promote the maximum co-operation of employers and workers in putting into use all national resources for raising the standard of living of the people. Otherwise there is the risk that the day of Victory will mean the death of our cherished hopes of economic betterment and improved standard of living.

The Government of India planning and reconstruction committees which I have dealt with so far display the Government's eagerness not only to maximise war effort but also to face the problems that await them in the post-war period. Of these post-war problems perhaps the most stupendous will be the industrial problems arising out of the numerous organisations which have been created and extended so as to promote industries for the increased supply of essential materials. As an instance I may refer to the industries of the type the United States Technical Mission has suggested. Will they be in a position to avoid tariff protection after the war? Can they work to full capacity in post-war years as well? These are the questions which must be seriously considered. Altogether it is necessary to stress that every attempt the Government makes to maximise and increase production during the war

gives a twist to the normal economic development of the country and at the same time adds to the magnitude of the problems likely to arise in post-war years. The greater the magnitude of the problems the greater will be the difficulty of effecting a peaceful transition in industry from war to peace. The Government of India as well as the Provincial Governments have got to consider the problem of reconstruction with the same seriousness with which they have faced the problems of war supplies; otherwise the well-being of this land and the milions of its people will be jeopardised. To show the same eagerness to win the peace that the Government have shown to win the war, it is essential that the Government should make clear their position in many directions.

In the reconstructed post-war India industries that owe their origin to war should be allowed to live. The policy of the Government and the conditions in post-war India should facilitate the existence of these industries which are essential for the prosperity of the country. War conditions might facilitate their establishment. We must see that peace conditions do not wipe them out. It would be a sad tragedy for the country if the industries nurtured by war become the first casualties of the peace. But in the committees organised for reconstruction work, industrial reconstruction does not appear within the purview of any of the committees whereas agricultural reconstruction forms a part of the work of one of the four committees. For a well-balanced economy the country should be industrial, commercial and agricultural. The war has given India the opportunity to expand her industries; and what war has given the Government should not take away. The post-war problems of Indian industry deserve anxious study and wise planning.

We have briefly dealt with the post-war reconstruction policy of the government, about its numerous committees and the salient criticisms about their constitution and work. Let us now consider the ideals that should guide us in the post-war reconstruction of India, the opportunities the war is offering us to-day and the means we may well adopt for ensuring the benefits of the industrial expansion we have had on account of the war.

It may be said that the war is doing in effect what the National Planning Authorities might do—the speeding up of industrialisation and the development of rural economy.

For the complete industrialisation of the country three kinds of industries should be started.

1. Industries that fill up the gap in our industrial structure; that is, reducing the dependence of existing industries on foreign sources of supply for certain raw-materials.

2. Key industries, that is, industries without which the large-scale factory-production of consumer's goods cannot be achieved economically.

3. Industries which are essential for the defence of the country and which can be easily converted into industries catering to peacetime needs also.

Though the war means great loss of men and materials for India, it has given an opportunity for India to start some of the industries coming under the above categories. Besides, a good beginning has been made in training a large body of technicians capable of manning some very skilled wartime industries. This reservoir of skilled technical workers can be made available in the post-war years to develop the production of some civilian goods for which India has been so far dependent on other countries.

Post-war reconstruction plans may be considered from many angles and aspects, for instance internal and external aspects from the scientific point of view and the official point of view, from the long-term aspect and the short-term aspect. Internally, the machinery of production has to be changed according to the needs of the nation's economic progress. Externally, our economic relationship with other countries has to be re-organised in the light of our special conditions and requirements and with a view to promoting the return of the world's economic organisations to normal conditions.

Reconstruction in the scientific way will take into consideration the relation between the nation's economy and the rest of the world. It will try to forecast the shape which the world economy will take after the war and about the place which the other nations assign to Indian resources and products. We must also consider the share which India will get in the productive effort. Foreign countries may be unwilling to forego India as a market for their manufactures and in that case planners of post-war reconstruction should devise measures for countering the

powerful competition from advanced industrial countries to retain the Indian markets. As distinguished from the strictly national and scientific reconstruction there are the routine official plans. The plans emanating from official quarters may not take into consideration the long-term benefits to the country but may attempt merely to tide over in the shortest time possible the crisis produced by the war. If the Government of the country is not convinced of the need to introduce a strictly scientific plan of reconstruction but is content to adopt an unbending routine attitude the industrial progress that the war has achieved will be wholly lost.

Post-war reconstruction can be organised either from a long-term point of view or a short term one. Reconstruction plans may be applied for a period of years to nourish industries that are essential for the country's prosperity. The short period plan is used for protecting industries which are developed and are making huge profits during the war. During peacetime such industries may lose heavily and the Government must come out to protect them if the industries are needed for the nation's progress.

Hence before organising a post-war plan the scope of the reconstruction plan should be defined and in order that any post-war reconstruction plan may become ultimately useful, two essentials should be satisfied. The plan must, firstly, reduce the impact of sudden and drastic changes both at home and abroad on the economic position more especially the immediate economic prospects of the nation as a whole and of a large number of individuals and classes. Secondly, it must prevent the changes from war to peace economy from either disorganising the national economy or neutralising the industrial and economic progress achieved during the war or from rendering the nation less fit to realise its economic aspirations and aims. These two essentials are meant to ensure that economic pregress is not hampered. Reconstruction plans should therefore render permanent the progress made during the war; they should not affect adversely the progress already made. Hence it is essential that post-war reconstruction in India should not be of a restrictive kind. India has got raw materials and has a good consumers' market at home for her finished products, and the country accordingly requires all-round expansion of her industries in the

post-war period. The Post-War Reconstruction Committee must also find out ways and means by which those lines of production which lag behind may fully meet the national demand.

Post-War Reconstruction involves the consideration of a number of problems and the more important of them are:—

1. Social problems,
2. Industrial problems,
3. Agricultural problems,
4. Problems of foreign trade,
5. Technical problems, concerning Government and management in each industry,
6. Problems of public finance, national currency and credit, foreign exchange, and
7. Problem of international co-operation.

Social Problems:—War imposes a severe strain on society. The numerous changes which have come over wartime economy may call for permanent changes in the economic and trade policies of the country. During the war the demand for commodities has undergone a change. For instance, for the goods which are not available the demand for substitutes has been promoted and after the war the demand for substitutes may remain permanent and the industries producing the goods may find it difficult to revive. As a result of the change in taste great suffering will be caused among the large class of industrial labour and the large number of agricultural producers.

There are some problems of reconstruction needing attention which can be solved only by administrative action after the war. The cessation of hostilities will bring unemployment among Government servants engaged in war work and among industrial workers supplying war orders. We may expect the Government to examine these problems in advance and take due measures of protection whenever they become necessary.

To lessen the hardship among agricultural producers and industrial labourers provision should be made for emergency relief. If restriction of output can bring about some relief to labourers the machinery to effect such re-

duction should be thought out in advance. Unemployment among Government servants engaged in war work and among workers in industries supplying the requirements for war can be solved by suitable adjustments in the capital programme of the Government, public bodies and corporations. There should be a unified programme embracing the activities of these bodies and it should be seen that the results of the capital expenditure are of lasting social value. In these cases it should be seen that the activities of one body do not come into conflict with any other.

The provincial governments should be fully represented in the capital programmes; for, the single-handed efforts of the Central Government without the full co-operation by the provincial governments will be too inadequate to solve the crisis in the post-war period.

Other sociological aspects of reconstruction are the promotion of measures for industrial welfare. If India has to stand up to the horrors of war, if her civilian population were to face the severe destruction of their houses and properties, post-war reconstruction must devote much attention to the housing problem of the citizen. In the post-war years the Government should have special plans ready to replace the workmen's quarters destroyed either, by enemy action or through an application of the scorched-earth policy. The workmen in Post-War India should have comfortable and sanitary houses. Slums that disfigure the landscape, slums that are not at all conducive to the moral and mental development of the workers, should be banished from India. The Government can grant loans to industrial workers for erecting houses according to plans accepted by the Government, and arrange to obtain the repayment of such loans in small instalments over a period of years. A well-housed industrial population is an economic asset. It will promote healthy life and increase efficiency. Healthy housing will eradicate many of the causes that lead to industrial inefficiency.

In the post-war years the emigration of workers to other countries should be controlled. No doubt an outlet for our surplus population is good. But an unrestricted emigration of men to other countries without adequate safeguard for their civil rights in the countries where they work is wholly despicable. In the post-war years we must plan to find employment for our men in our country and if other countries seek the help of Indian labourers, emigra-

tion should be allowed only on condition that the countries needing them provide the normal requirements of labour—minimum wage, security of employment, provision for housing, medical aid and education, provisions for returning home over a period of years with allowances and with no risk of losing their employment. If emigration is allowed on this basis the emigration of Indian labourers will not present any thorny problems to the Indians Overseas Member, and the story of their ill-treatment will no longer darken the pages of our history.

Suitable measures should be adopted to settle industrial disputes without resorting to strikes. The Post-War Reconstruction Plan should establish certain conciliation boards whose decision should be recognised by the Government and given effect to. The Government have already made a beginning in this direction by the appointment of labour officers for Ordnance Factories. Frequent resort to strikes results in much loss of working days and a heavy reduction in the income of the workers. So the prime object of post-war policy so far as it is allied to the sociological aspect should be the solution of problems relating to housing, emigration and industrial peace. During the slump the emphasis was on recovery after the slump, but to-day the main problem is reconstruction after the war.

2. *Industrial Problems*:—The plan for post-war years should be directed towards devising ways to increase the consumption of industrial raw materials in indigenous industries. Besides, the plan should promote increased self-sufficiency for India and also the resumption of the export of raw materials to foreign countries to some extent. To promote self-sufficiency, the indigenous industries must be appraized of the varieties of local needs and the extent to which Indian industries can cater to them. The Indian textile industry imports long-staple cotton in order to produce finer textiles. Since self-sufficiency is the ideal, the increased production of long-staple cotton should be provided for and new uses should be discovered for short-staple cotton. The export of some other commercial crops such as groundnuts and tobacco come under the same category. Instead of exporting them raw, we must start industries to manufacture finished articles out of them and the finished or semi-finished products may then be sent out.

If the resumption of old channels of export is considered the ideal, the countries which absorb some of our commodities will have to be permitted to send into India some of their own commodities even though they are of a competitive kind. By such agreement our infant industries will be exposed to powerful foreign competition.

But the task of deciding how far we should promote self-sufficiency, how far we should resume old channels of export and how much concession we should give to foreign countries for undertaking to absorb some of our products depends on reconstruction planners and the way they understand the Indian economic situation.

The moment the war orders cease the industries catering to its demands will have to face a very difficult situation. If some of the industries survive after the war period it will be mainly due to the inability of old rivals to come back to Indian markets; and during such period Indian industries may not need tariff and other protection. But when other countrise are actually in a position to compete with Indian infant industries, as a measure of post-war reconstruction, Indian industries should be specially protected. ''Estimates of wartime progress detail the progress of Indian machine-tool industry, the beginning of shipbuilding and repairs without indicating whether the progress is likely to be permanent. Standing by themselves such estimates provoke fears of post-war slump. The war and all its effects are viewed as unrelated to the original trend and the successful establishment of substitutes in former markets induces many to take a gloomy view of post-war prospects in export trade. The restoration of old standards of living is going to be more than ever difficult in the East. The Colonial markets are lost for both India and Britain, because they will be in poor condition after a late victory. A state of dependence on imports is undesirable; hence the demand for planning now. If food crops displace cotton and oilseeds in the future, the reduction in the post-war quantum of foreign trade can be safely ignored. If the mills take all the cotton grown in India and textile imports are displaced for good, the effects of peace on employment and profits in the mills will be negligible. If the growth of capital and enterprise alike is checked by the present rates of taxation there will be few infant industries struggling for assistance. If Poland and Japan are alike debilitated, the Indian

woollen industry will have few anxieties; if the leather and rubber industries develop rapidly the hides and skins and rubber exports will switch over to the home market. The permanent handicaps that will be thrown on Germany and occupied countries after the war, which will limit reconstruction in Europe, are sure to help the iron and steel manufacturers in India. The large food reserves held in America against the return of peace will divert shipping away from India and check general imports while enlarging the demand for jute manufactures. If one chooses to think out resolutely what will come, should peace return swiftly, one might even venture to say that except for a change in bullion prices conditioned by Anglo-American agreement as to exchange, there will be no grave shock to Indian trade and industry. The position won in markets like Afghanistan by Indian sugar will be retained because Java and Russia alike are incapable of remaining as suppliers to countries east of Suez. In regard to coal, cement and paper the export trade of India should in effect increase rather than decrease owing to the post-war demand in the East. Difficulties with regard to liquid fuel will disappear as power alcohol production would probably take a knock. Specialised war production would probably suffer but normal peacetime demand is enough to keep iron and steel industry going as also minor industries like glass and cutlery. If capital is flowing into industries as before, it will abolish the fear of over-production. Disarmament will be a bigger industrial factor than it is known. Skilled labour released from war industries will be diverted to peaceful enterprise and there is every scope for a rise in the efficiency of labour." (From an article in *Indian Finance*—"After the War" dated July 4, 1942.)

The relevant portion of this article from *Indian Finance* has been quoted in order to give an idea of the post-war prospects of Indian industries. It may be altogether one-sided and give a rosy view of the post-war position of Indian industries. There are, however, some disquieting features which make the picture of post-war prospects gloomy.

Besides this, all plantation industries including cocoanuts have good prospects. In the post-war years industries will be permanently established in India which will absorb the products of the plantation industries and turn out consumable goods. Increase in the purchasing power

of the masses will cause the markets to expand. The plan for post-war reconstruction should place on a firm footing the industry producing machine tools. In the post-war period belligerent nations will be engaged in rebuilding their countries devastated by the war and in replacing the industrial machinery which were not properly repaired during the war. So in the post-war years we must make all the required machinery for our industrial development. The first step in this direction is the starting of machine-tool making in India itself; and we believe that good use has been made of the assistance of the American Technical Mission in providing equipment and personnel in this connection. Considerable progress will however have to be effected in making machine-tools in the years to come.

Thus the post-war reconstruction of our industries should give us in peacetime the advantages, India has been able to secure in the period of war.

War has given an opportunity to start key industries connected with shipbuilding, aircraft and automobile manufacture. Another industry of equal importance is the manufacture of locomotives in India, as yearly, India imports a good number of locomotives from other countries. A report was published favouring the location of the plant for the manufacture of broad-gauge locomotives at Kachrapara near Calcutta and meter-gauge locomotives at Ajmere. Most of the parts for locomotives can be manufactured in India except copper plates, pipes and rods for boilers, gauge glasses, armoured glass protections and lubricator glasses, steel boiler tubes and such elements as asbestos mattresses. But this favourable report for starting the manufacture of locomotives was not given effect to. The Government should take a lively interest in starting these key industries at the period when the war provides the opportunity for starting them and then in the post-war years give them protection, if they need it, so that they may be in a position to make India a fully industrialised country.

India also produces a good number of chemicals and patent medicines. Plants also have been established to produce aluminium—a very important metal for war industries (from ores obtainable in the country).

Agricultural Problems:—The war has impressed upon us the inadequacy of our food supply. Though our country is predominantly agricultural and food crops are

by far the most important of the crops raised in this country, the output of food grains has not been sufficient to feed the vast population. The food shortage was made good by the imports of food grains from Burma and Indo-China. On an average for the ten years preceding the stoppage of such imports we imported 14 lakhs of tons of rice from these countries.

So the Government has inaugurated the Grow More Food campaign. It has aimed at increasing the food production by a change over from the production of cash crops such as groundnuts and short-staple cotton for which there is a shrinkage of markets to the production of food crops. The campaign for growing more food coupled with the propaganda to waste less food and for substituting other food materials of good nutritive value (*e.g.*, groundnuts, cereals and vegetables) for food grains will go a long way to tide over the temporary food shortage.

But after the war there may be the resumption from Burma and Indo-China of food exports to India and the Indian grain-grower may experience special difficulties through falling prices resulting from foreign competition. Post-war Reconstruction Plans should consider the protection of the grain-growers against such dire consequences.

Even in normal times the bulk of the Indian population suffer from malnutrition and insufficiency of food. A comprehensive food planning drive organised in the post-war period will not be a luxury. It will have a decisive effect on national nutrition and also improve the condition of the agriculturists who will grow a variety of food to meet the increased needs of the people who will be guided by the food planning authorities in arranging their diets. Thus in the post-war years the nutrition, poverty and health of the people are closely linked to the food planning drive started under the auspices of the Reconstruction Committee.

The Food Problem of India :—The food crisis in India has been accentuated by certain factors affecting the supply of and demand for food. On the supply side we have to take into account the following facts :

1. Certain normally deficit areas like Bombay and Malabar coast have been deprived of a disproportionately large part of their normal supplies by the cutting off of Burma imports.

2. In the normally surplus districts of Bengal the normal supplies have been reduced by the cyclone of October 1942 and by the widespread disease in the Aman paddy crop of Western Bengal.

On the demand side we have to note the following :

1. The crisis has been accentuated by the combination of an adverse supply situation with an adverse psychological situation due to the proximity to the war zone.

2. The magnitude of the marketable surplus has been diminished through the increased holding and increased consumption of the cultivator who in the depression period was eating less than was requisite for full efficiency. This diminution reacts with disproportionate effect upon the urban consumers as a whole.

3. The increase for the first time in the per capita income of certain classes of people leads to an increase in the per capita consumption.

4. The absolute size of the rice carry over declines.

5. A portion of the available stocks is withheld for investment and black-market reasons; and,

6. An increased demand for family and security reasons which cannot always be satisfied exerts a disproportionate influence on prices.

There is a misapprehension that the supply of foodstuffs to the army stationed in India and exports to other countries are responsible for the present crisis. The Government of India, however, have made it clear that the requirements of the Defence forces in India are only $\frac{1}{8}$ of the wheat produce of the Punjab and 1/20 of the rice produce of Bengal.

It may be pointed out in passing that the efficiency of agricultural production is to some extent interfered with by the shortage of metals like iron, vitally important for the making and maintenance of agricultural implements.

Remedial Measures :—The question now confronts us "What are the Remedial Measures that should be adopted to alleviate the deleterious effects of the present situation?" In the first place attempts should be made to increase the available food supply. The suggestions in regard to in-

creasing supplies relate both to imports from and exports to other countries and to food grains grown within the country. It must be laid down that for the duration of the war India must cease to be a net exporting country and become a net importing country. The export of rice must cease altogether. The Government must press for imports of $1\frac{1}{2}$ million tons in the first year and for imports of one million tons per annum in succeeding years—one million tons being the average annual net imports for the last five years. The reason for suggesting a larger initial volume of imports is to enable the half a million tons to be utilised to create a central food grains reserve. Such a reserve will render the enforcement of adequate price control easy and greatly facilitate procurement.

As regards increase in the supply of foodstuffs grown inside the country the following suggestions may be taken note of :—Assistance should be given to industrialists, for the importation of plant for the manufacture of Ammonium Sulphate to the extent of at least 350,000 tons a year. Adequate supplies of Iron and Steel should be secured for the replacement and repair of worn out or defective agricultural implements. The under polishing of rice which is now practised at Madras should be extended to all other rice provinces. The "Grow More Food" campaign should be given a fresh impetus. There should be a large-scale distribution of improved seed. The Grow More Food campaign is bound to be fraught with difficulties. The average agriculturist is illiterate and is apathetic to modern scientific knowledge in the use of manures and agricultural implements. The uneconomic holdings and gradual morellement of land make it difficult for the agriculturist to respond to the "Grow More Food" campaign. Lack of transport, marketing and credit facilities are a few more stumbling-blocks in the path of the agriculturist.

Procurement :—Two alternative principles may be invoked to solve the problem of procurement or the acquisition of supplies. The first principle is that of unlimited free trading in food grains. But this would result in a drastic rise in the level of prices in some areas. The other principle is that of a central government food grains monopoly. This is not a scheme inherently unworkable. But the creation of a vast organisation is not practicable in the middle of a crisis. The course of action that can be adopted in the present situation should be based on the

following principles. Firstly, though it is premature to create complete provincial or state monopolies yet the first principle of a sound procurement policy must be the elimination of competition as far as possible. The centre, therefore, need not set up its own procurement machinery so long as it is satisfied that the provincial or state machinery is working adequately. Secondly, to allow official buying to function effectively, transport priorities must be secured. Insufficient attention has been paid to this form of eliminating competitive buying in the past in the provinces. Procurement involves in the last resort getting the maximum quantity of food grains from the cultivator in every part of the country. To achieve this end, there are two alternatives—compulsory acquisition at a fixed price and increasing the inducement to the cultivator to sell. It is perhaps premature to resort to requisitioning in India which would involve official procurement machinery everywhere, though in seriously deficit areas it may be the only way out. A rise in the price of food grains may not evoke an increased supply so long as higher money prices received by the cultivator cannot be translated into an effective supply of goods which the cultivator requires. The problem of procurement is thus intimately linked with the problem of increasing the suppy of goods which the cultivator needs. Untiring efforts should therefore be made to increase the supply of such goods and the problem should rank next to the problem of munitions supply. If the supply of these goods cannot be increased adequately, it would be advisable for Government to secure supplies of the precious metals for sale to the cultivator. In this connection, it may be mentioned that fifty lakhs of rupees are provided in the central budget in addition to the loans granted to the provinces for the buying of food grains. So far Rs. 100 lakhs have been lent by the Centre to the provinces.

Distribution and Consumption :—It need hardly be emphasised that the food crisis has to a certain extent emerged as a result of mal-distribution of the quantum of food grains available in the country. The problem of distribution is closely interlinked with the problem of transport. The proposal to create an officer in charge of food movement within the Food Department deserves to be acted on. The steps taken by the Central Government in connection with Railway priorities for food grains are

welcome. To relieve the congestion of Railway traffic alternative modes of transport should be employed. The possibilities of using water, lorry and country bullock-cart transports should be examined. It is gratifying to note that the new Viceroy has given expression to his decision of associating trained army officers with urgent problems of civilian transport and also of utilising the services of certain army transport, for the purpose of food grain movement.

Another aspect of the distributive problem at the present time is the rationing in the larger cities of India, *i.e.*, with a population of one lakh and over which should be undertaken forthwith. It is impossible under rationing to guarantee any section of the community the food grains consumed by them habitually, according to their requirements in normal times. For the successful working of any scheme of rationing the need for public co-operation is paramount. This can be best secured by setting up of non-official advisory committees. Another pre-requisite of Rationing is good administration. There should be drastic enforcement of law especially in the early stages when attempts at sabotage and evasion are likely to be frequent.

The Food Department should also investigate the possibility of individual rationing of sugar and milk as these have a peculiar bearing upon the health of women and children. General rationing is impossible in rural areas, but it has to be noted that in famine or semi-famine areas distribution cannot be left to the normal channels of trade, and Government action is absolutely imperative. In Madras, Rationing is to be introduced in all municipal towns and this proposal should be welcomed.

Price Control :—The food grains policy committee set up by the Government has come to the conclusion that the price control of all the major food grains should be instituted in all provinces and states. There should also be a central control over these statutory prices. In considering the appropriate level of regional prices, the cultivator's costs should be taken into account. The committee while not opposing the policy of selling food grains at reduced or preferential prices to certain sections of the population points out that such a policy can never solve the general problem of food supply and should never be regarded as an effective substitute for an integrated food grains policy.

There are certain minimum conditions for effective statutory price control : (1) There should be an adequate procurement machinery. (2) The food grains control order should be enforced strictly. (3) There should be an effective control over transport. The importance of price control has been realised by Mr. Amery in a recent speech in the House of Commons where he traced the food situation in Bengal to inflationary forces.

Administrative Aspects of the Food Problem :—A Food Board should be created in the place of the existing organisation at the centre. This should secure the continuous and conscious co-ordination of effort in all directions. In addition to the Board there should be a panel of six experts drawn from trade whose advice should be sought on suitable occasions. The spheres of activity of the centre and the provinces and the states should be clearly defined. Co-ordination of the activities of these three should be brought about.—*Food Grains Policy Committee Report.*

Plan for Agriculture

That our agricultural economy has slowly been deteriorating is now an admitted fact. Not only have we neglected the extensive cultivation of food crops in recent years but have also been experiencing a fall in the yield of the same. If we are determined to prevent the recurrence of a food crisis, we should lose no time to reorganise our agricultural economy; nor should we hesitate to introduce sweeping and revolutionary changes.

There are no doubt many difficulties in achieving the end. Agriculture is so closely linked up with the human factor that even a slight change is likely to be met with the greatest opposition from the cultivators. A corresponding reform of social policy is essential for a successful reform of our agricultural policy. Again the extent of reform in agriculture will be determined by the extent of reform in other sectors of our economy. For example, unless there is rapid industrialisation, any labour that is displaced from agriculture on account of the new methods will be wasted; also agriculturists should be supplied with more goods for the greater resources they will come to possess. Our internal reform will also be greatly influenced by plans on an international scale for effective organisation of agricultural resources of the world.

Our agricultural production has not been keeping pace with the growth of population. The result is that "there is an unexampled pressure of the population against the means of subsistence."

This serious state of affairs can be rectified only by introducing reforms from all sides; technical, economic, fiscal and social. The state should take an interest in carrying out the reform.

Economically, agriculture has failed to be a business proposition in India. To make it profitable, not only should the methods of cultivation be improved but a scheme of sensible crop planning should be introduced. Intensive cultivation on scientific lines should be carried out. The progress made in plant-breeding, live-stock breeding, crop-rotation, mechanisation, irrigation technique, manuring, have all to be studied to be introduced with necessary changes to suit the conditions in India. The types of crops that we shall grow will be influenced by the nutritional requirements of our growing population, our industrial demand for agricultural raw material and our export possibilities. I should also say that the land revenue system also needs to be reformed to make agriculture profitable.

The most stupendous and biggest task in any reform of agriculture in our country will be the prevention of soil erosion and conservation of soil fertility. In many parts the soil has reached a "stationary state of fertility at a low yield." In the words of Colonel Brayne "India is literally drying up in front of our eyes." Government alone is in a position to tackle this problem and this it should do urgently.

Social reform should accompany agrarian reform. The old laws of inheritance leading to fragmentation of holdings will have to undergo a change. New institutions, more in conformity with a progressive agricultural economy, should be set up.

It should be realised that if such a reform as the one suggested above is to be successful, it should be on an All-India basis. "The types of our agricultural resources and their inter-provincial distribution make India an economic unit and demand an All-India plan with regional allocation of different varieties of crops."

The urgency for agrarian reform needs no reiteration. "Hungry millions" people the country. Death due to

starvation has become an ordinary incident of life. If the present generation is to be freed, and the future generations safe-guarded against starvation, our immediate task will be to turn to land and bring about a revolution in agriculture, resolutely, that would open up a new page in Indian Agricultural History.—*The Eastern Economist.*

Foreign Trade :—Indian foreign trade in the post-war years will take a new shape altogether and we cannot be certain of resuming all the tráde connections we had before the war. Economically broken down Europe may not be a good customer. Besides, India may attain a state of industrial development in which the imports of manufactured articles from other countries may not be welcome. So to make up for the lost markets in Europe, India should discover new markets in other countries especially the United States, Australia and China.

With a little more foresight India may attempt to tap the United States consumer market—the richest in the world, in aggregate and per capita. Mr. H. S. Malik, the Trade Commissioner, in a report has said that, "there are vast opportunities for Indian consumer goods. In the United States, the Departmental Stores, the Mail-order houses and Five and Ten Cent Stores monopolise the bulk of the trade. Hence the factors such as price, prompt delivery and adherence to contracts and standardisation of products count." The Trade Commissioner observes that India can build an important trade with U.S.A. in many beautiful hand-made articles both in metals and wood and in textiles for which India has an excellent reputation. According to him the caption 'Made in India' has a definite sale value in U.S.A. Indian carpet wools have a very good market in U.S.A. India produces a good amount of carpet wool as well as considerable quantity of finer wool, the supply of which can be augmented by selective methods of breeding and grading. Indian export of wool was valued at Rs. 286.1 lakhs in 1936-37, Rs. 264.6 lakhs in 1937-38 and Rs. 298.7 lakhs in 1938-39. If the Indian exporter adjusts his trade practices to the requirements and tastes of the American importer and manufacturer especially in regard to the quality, Indian exports to America can be considerably increased.

Direct personal contacts between Indian businessmen and American buyers and suitable publicity and propaganda for Indian materials will win the American markets

for a good many Indian products. If Indian businessmen could start a responsible organisation for developing the trade and for organising production, the desired object will be achieved.

"China also presents great economic opportunities to India and other Pacific Countries. In the post-war years, China will primarily want capital goods and raw materials. In order to re-establish heavy industries, she will require machinery, tools, vast quantities of steel and other metals. To supply those machines, she will need vast quantities of raw materials that she does not produce herself from wool to the ingredients of plastics, from modern minerals to timber, oil and rubber.

"Temporarily she may even require food-stuffs especially as her shaken up population are going to recognise the value of an increasingly westernised diet. The largest nation in the world will have to be almost wholly re-clothed."

So China holds great economic opportunities for the Indian industrialist and if the Indian industrialist goes ahead with industrialisation in right earnest he can benefit immensely by the opportunities he will find in the post-war period.

Besides, a rich export trade with Australia can also be built up in textiles, glassware and in commercial crops. Already India makes garments required by the Anzac forces and exports glassware and in the years to come this trade should be further developed.

In the post-war years Britain and U.S.A. will be engaged in the re-building of Europe, China will free herself from Japanese interference and Eastern nations will get ample scope to reconstruct themselves through increased trade among themselves and by conjoint development of other backward countries.

In connection with trade developments during the war, with a view to controlling foreign purchasing power, imports have been regulated, only such imports that are necessary for increasing war efforts being allowed. Such import control can be retained in peacetime also so as to permit only such imports as will ensure full employment to our own workmen. In the alternative a system of trade agreements can be inaugurated by which the import of products which will unfavourably affect full employment may be excluded or placed under special handicaps. Re-

constructionists should study the problem closely and determine the commodities, the import of which needs to be controlled.

Another problem for planners is post-war shipping. During the war ships have been withdrawn from ordinary commercial services in order to meet the immediate requirements of the war. After the war, if trade has to be revived quickly, shipping services must be revived without delay. The Government should not be behind hand in giving some assistance if it is proved that Government's help would expedite the course of revival. A mercantile marine is a valuable asset to international trade and India will find it economical to possess a mercantile marine of her own as she has an extensive inter-oceanic trade and a valuable coastal trade. The trade policy of the Government must be such that after the war Indian shipping will achieve scope for rapid development. We have been told that shipyards have been specially equipped to build small naval vessels, and these yards can be improved for building ships for the Indian merchant navy in the post-war years.

Technical Problems:—During the war the Government has acquired valuable stores and machinery for the production of war materials. After the war the plant, machinery and stores can be disposed of so as to provide great opportunity for India to start industries for supply of consumer goods. For this purpose the industrialists should be appraised of the plants and stores that may be available for purchase after the war. By this act, Government can help industrialists to plan in advance for the efficient use of machinery now utilised for making other materials. Besides this, statistics about skilled labour should be maintained. In the next few years the availability of skilled labour will, to some extent, decide the nature of the industries that can be started. The Government should publish a census of technical labour engaged in war work which is likely to be discharged on the cessation of hostilities.

This war has seen the rise of an Industrial Research Institute in which valuable work is being done. After the war the Research Institute can be continued for the benefit of peace-time industries. Such research work has generally suffered in post-war schemes in the past; but this should not happen after this war, and research work should be adequately financed in order that it may foster all nation-

building schemes, and aid further the technical advancement of post-war industries. In all advanced industrial countries the money spent for research is considered a valuable investment. For instance, advanced productive units in the United States have each a research department and this enables them to achieve high perfection and cheapness in the cost of production. Technical problems should receive great attention from post-war planners, since technical efficiency only can place the industries on a sound productive basis.

Currency :—The future of Indian economy also depends on the stability of our currency. The changes in the value of the rupee will in turn affect the financial position of the country.

In the post-war period, the rupee will be freed from the burden of interest charges on the Sterling debts. The future of the rupee will no doubt be affected by International plans. The Governments of U.S.A. and United Kingdom have placed their proposals regarding the future world money. The Government of India has republished these proposals for eliciting public opinion. These proposals are all tentative and nothing definite is known, but if India has to take part in these discussions and proposals she must have the power to determine her own currency arrangements to her best interests. She should be left free to join the Sterling block if she considers it necessary. She should be given power to determine the extent of her trade relations with other countries in so far as such power is necessary to avoid unfavourable foreign borrowing, to eliminate competing imports and to establish basic industries.

Some Feature of War Finance

The two prominent features of War Finance are the change in the status of India from a debtor to a creditor nation and the greatly increasing volume of currency plunging the country into a state of inflation. These changes are not independent but are closely related to each other. The tremendous increase in the volume of currency is made possible by the rapid increase of sterling balances abroad, while the increase in currency itself is necessitated by His Majesty's Government and other Allied Governments' purchases in India.

Causes of Sterling Accumulation :—Since the outbreak of War there has been a strict control of imports whereas exports were not similarly controlled. The imposition of exchange control, the lack of shipping space, the shrinkage in the number of foreign markets and the increasing demands from the sterling area dominated by Great Britain, have contributed to a very favourable balance of trade with the United Kingdom. India is also being credited with her share of war expenditure; His Majesty's Government's purchases in India are paid to us in Sterling. For purchases made by the United States of America also we receive a sterling credit through London.

Effects in India :—The increasing sterling balances have two undesirable aspects. In so far as the accumulation of sterling is due to greater exports it represents a sacrifice of the Indian nation for the cause of the Allies. It is perhaps a sacrifice without even providing for minimum civilian consumption. Besides creating a scarcity of consumers goods inside the country it helps to steepen the rising prices when the balances are used for providing rupee finance. For, under the present system of rupee finance, the Government of India (through the Reserve Bank) have undertaken to provide the currency against a sterling credit in London. It might be mentioned here that in the beginning stages of the war, the utilisation of sterling balances for repatriating sterling debt had a deflationary effect, but this is no longer visible as the repatriating process has now practically stopped.

Utilisation :—The main problem is how to utilise these sterling balances during and after the war. It should be realised that the entire balances could not be used during the period of the war for obvious reasons. So the question of providing against any depreciation of sterling in future becomes important.

Use during the War :—It is hardly necessary here to dilate on the schemes of repatriation of sterling debt, funding of Railway annuities etc., which have all taken a big slice of our sterling balances. The sterling liabilities of quasi-Government bodies like Port Trust, Public Utility concerns, and Municipalities, however, remain yet to be repatriated. This is to be strongly recommended to the Government who seem to be thinking of schemes that would fritter away huge sums of accumulated sterling without much immediate benefit to India. With the fall of Italy

and the Allies' entry into that country, the Mediterranean has become cleared of the enemy. It will be easier now to import capital goods in the form of machinery etc., which would ultimately help to save shipping space. The import of useful machinery for production of essential goods for civil and military consumption will go a long way to avert the tendency of rising prices. In short, our aim with regard to the utilisation of the sterling balances during the war should be not only to withdraw purchasing power from the people but also to increase production of goods for both civil and military consumption.

Guarantee against Depreciation :—More important is the utilisation of these balances after the war. But before that, should not Britain guarantee compensation should sterling depreciate? There is no knowing what the status of sterling will be after the war. It may not fall much but there will be a fall. Britain has already given such a guarantee to Argentina. Why should not the Government of India take up this question with His Majesty's Government?

Use after War :—The future of our sterling balances will be closely linked up with the international discussions and decisions arrived at on the Monetary Plans published by the Allied Governments. The proposals are all tentative. Two important points should, however, be borne in mind. Sterling balances have been accumulated by national sacrifice; their utilisation at present as currency reserve is causing national misery; the balances should be used to serve national interest. This could be achieved only if the Government takes interest in its utilisation. The acquirement of foreign exchange for trade purposes after the war should not be treated as merely a problem of foreign exchange.

The Government must endeavour to earmark a portion of the Sterling balances for the development and starting of hydro-electric schemes and thermal stations. This is vital in order to provide cheap power for promoting the industrialisation of our country.

Railways are one of the important State concerns in India. During this war, the wear and tear caused by continuous demand on the Railways has caused a serious deterioration. It is necessary that immediate steps should be taken after the war to recondition the Railways in India.

Further, it is necessary that well-developed railway workshops should be established in India. For these the Government should set up a large slice of Sterling balance accumulated.

Secondly, Government should as far as possible avoid giving Sterling exchange for purchases of gold by individuals.

After providing for the above, Government should discriminately utilise the balance of Sterling accumulation for the development of those industries, which would be really of great national importance. For this purpose the Government should set up a council of industrialists. The council should be mainly composed of eminent economists, prominent industrialists, leading bankers and a few experienced officials. The majority decision of the council should be final. It will be the task of the council to examine requests for foreign exchange for trade purposes and recommend such requests as promote national welfare to the Government for sanction. This system will no doubt mean the continuance of the Exchange control machinery for sometime after the war, with all its import and export restrictions. The council with the help of the Exchange control machinery will be able to check internal competition and overproduction of certain goods. It will also be useful to prevent dumping of goods from outside.

A start in this connection may be made even now. The Industries and Civil Supplies Department should set up the council of industrialists. The immediate task of the council will be to explore what type of industries should be started during and after the war. Industrialists will not be wanting in numbers who will be willing to float such concerns as are recommended by the council. People also will eagerly subscribe to such concerns. The Examiner of capital issues performs only a partial function. His field does not extend to the expression of opinion for starting new industries. True, the composition of his office is not designed to deal with this type of work. The council, therefore, when set up, will attend now to finding out new industries that can be started easily and to the benefit of the country. After the war, it will not only continue this side of its activity but also will help the Government in the matter of foreign exchange.

The council will thus fill up a serious gap in the present official organisation. It will be a machinery vital to the

growth of Indian Industries on right lines and will safeguard national interests. The Government should lose no time in setting up such a machinery. Its formation now will also help the war effort, inasmuch as it will be the chief organisation for starting the new production drive which is so vital to bring down rising prices.

This brings us to the question of inflation.

Inflation :—We have now reached a stage when it is admitted by all concerned that there is inflation in the country. The effects of inflation have come to be seriously felt. The increase in prices is unbearably high. Scarcity of consumable goods is the order of the day. Famine conditions prevail in important areas. Scarcely is there any difference between the urban and the rural areas. All alike suffer from dearth of foodstuffs. What is the reason for all this? Briefly put, it is due to much expansion of currency over a limited or decreasing quantity of consumable goods.

There is no time now to be apportioning responsibility; nor need I dilate on the causes which are very well known. It must be realised at once that not a moment should be lost in devising ways to remove this disastrous economic condition. From the nature of the disease explained above, it would appear that the remedy lay in three lines:

1. By trying to stop further expansion of currency;
2. By absorbing as quickly as possible all surplus purchasing power in the hands of the people; and
3. By increasing the quantity of consumers goods.

I shall not deal here with the measures that have already been taken by Government on the lines mentioned above. I shall only briefly sketch a few important points which have, however, not yet had the favour of the Government. But before that I should like to stress that there is one thing which we cannot stop, *i.e.*, further expansion of currency. For so long as India is committed to help the Allies, in their war efforts, expenditure by Allied Governments cannot be stopped. And so further expansion of currency is inevitable.

Government have already taken action to absorb surplus purchasing power. The latest innovations in this direction are the introduction of the National Savings

Certificates and Government of India Five-Year Interest Free Prize Bonds. I shall not point out the defects in the Government's Schemes to mop up surplus money. Two important points should be borne in mind which unfortunately have not weighed much with the Government. The Indian mass values only such investments that afford quick conversion facilities into liquid cash. This, perhaps, explains the great faith in the precious metals. Any form of investment facility that does not lend itself for conversion into cash easily is bound to be a big failure. The national Savings Certificates have an element of non-encashability.

It is not so much the absorption of the surplus money in the hands of the big investor that will help to check the rising prices as the mopping up of surplus purchasing power in the hands of the small investor, that would otherwise function as active money. The rate of interest on small savings is not attractive. The fear that a higher rate of interest on small savings will alter the general structure of the rate of interest is unfounded. Deposits in Co-operative Credit Societies, Joint-Stock Banks, and Post-Office Savings Banks should be offered about 6% subject to the condition that no individual is permitted to invest more than Rs. 5,000.

Sale of gold to the small investor has also been advocated. The difficulties of Government in carrying out these suggestions are, no doubt, many but they are not insuperable. There is, however, one difficulty in that the investor will suffer a great loss when the price of gold or silver falls, as it must, after the war. If it is the intention of the Government to safeguard the Indian investor against this loss, a modified scheme of sale of precious metals should be introduced. It would be expedient for the Government to sell gold at a reasonably low price in India. It should also undertake to purchase much blocks as are offered for resale after the war due to a fall in prices. No doubt this type of transaction will involve some loss to Government, but it will be in the interest of the Indian nation and will help to relieve the present misery to some extent.

Further taxation for withdrawing money must be done with caution. In the case of loans also it is my impression that if loans are floated for shorter terms they might prove more successful than at present.

Restrictions may also be placed on payment of dividends. Part of wages may also be held up if possible. Non-transferable cash ce-tificates payable after the war bearing an attractive rate of intereest may be issued instead.

The real remedy should come from the side of production of more goods. 'Grow More' and 'Produce More' should be the slogan of the day. I have already suggested the starting of a council of industrialists whose immediate task will be to explore the possibilities of starting new industries for increasing production of consumable goods. The urgency for tackling the problem on these lines need hardly be stressed. The starting of the South-East Asia Command with greater expenditure, shortly, will certainly inflate prices tremendously. This is also the proper time for us to capture and consolidate our markets, when our worst enemy in the industrial sphere, Japan, is engaged in production of goods for military consumption. I strongly, therefore, plead for urgent action on these lines.

The Problem of Transport:—The importance of an efficient transport system has never been more poignantly demonstrated than at present. The greatest fillip to Railway development in India was the recurrence of famines. But in spite of considerable expansion of the Railways, the fact remains that, in proportion to the extent of the country and its population, Indian Railway mileage is the lowest among the important countries. Added to it, the Railway system of India is too abjectly dependent on foreign supplies for its locomotives and most Engineer stores. The result has been the failure of the Railways to efficiently perform essential services at this vital hour. Hence the present regime of priorities and restrictions. It is true that the exigencies of the war must have prior attention. But the essential requirements of the home-front cannot be so sadly neglected.

This emphasizes the need for a co-ordinated transport policy. In the future, we will have to reckon with not only increased motor transport but also air-transport as a competition. In a country like India with long distances, air-transport will capture a considerable part of long-distance upper-class traffic. Nevertheless, the Railways will have an enormous volume of traffic open to them. There should be further opening up of trunk lines. Long-distance traffic is the legitimate sphere of Ralways. Within this sphere, there should be better co-ordination among

Railways. At present, there are many anomalies in the 'rates-system'. There are cumbrous unscientific schedules. For the calculation of telescopic rates decreasing with distance, the mileage is taken separately on each Railway and not on the total distance. The many special rates quoted in the period preceding this war were not based on any scientific principle, but were mere expedients for capturing traffic. An all-India rate policy should be formulated on the postulate that the Railways exist to serve industry and commerce.

In India, road transport can never cease to be the primary link between the villages and the rest of the world. There should be a bold policy of road development with a view to providing thorough feeder services to the Railways. Now that the Railways are mostly State-owned and State-controlled, there is no danger of their exploiting their monopolistic privilege.

In view of the cheapness of water-transport, internal canal and river transport should also receive due attention.

The importance of a mercantile marine is recognised all over the world and the shipping industry has been receiving special State encouragement in many countries. India's naval tradition, the magnificent services of her seamen in the present war and her own natural advantages, demand great encouragement for the building up of a merchant fleet. The reservation of coastal navigation to the nationals will be stimulus.

Problems of International Co-operation :—Any reconstruction plan, however much it may promote national self-sufficiency in its essentials, depends for its success mainly on the world's economic situation. International price levels and International Demand regulate currency recovery. In the Atlantic Charter, signed on February 23, 1941, the reconstruction of the world is to be achieved by the expansion of 'production, employment and the exchange and consumption of goods' and it has dreamed of 'appropriate international and domestic measures.' Though India is excluded from the application of the Atlantic Charter, the Indian problem might be thought of as a domestic problem and many arrangements may be made which will perhaps go against the real interest of India.

In the reconstructed economy of the world a nation should not think of exporting more than she imports.

People in dire want of necessaries are denied the wherewithal to buy them and due to their lower purchasing power there is an apparent super abundance of necessaries. Hence factors of production are diverted to the making of luxuries. Production can be in full swing, but in distribution of produce there are great loopholes; the consumers have not enough money to buy the potential output. If production is to be carried, on mass-production basis, there should be mass consumption.

In the post-war world there must be international co-operation to abolish the states 'economic belligerency.' One nation should not think of keeping another nation as a market or go about hunting for markets by adopting ever so many tricks of international trade.

As the Report of the London Chamber of Commerce has said "the Economic fear should go." An over-riding factor in considering any scheme of post-war reconstruction should be the elimination of economic fear among the nations. Economic relations should be a bond of union and not a source of fear. After this war capital should not be scrapped, output of new potentials limited or destroyed and millions of men prevented from producing, but in future effective demand should be equated with the supply (Ref. Post-War Economy, '*Capital*,' June 18th, 1942, page 854).

The problems, the solution of which will promote international co-operation, are as follows :—

1. The victor nation should not consider that a vanquished nation should be in a position of economic servitude. One nation should not work for a favourable balance of payments but in turn work for normal balance of payments based on the principle of *quid pro quo*.

2. The international purchasing power should be so distributed as to enable the nations to consume the whole of their own production.

3. When one country has industrialised herself during the war, it must not be coerced by international trade policies to revert to her former position.

4. Nations whatever ideologies they follow in whatever way they organise society they must be given equal status in international trade position and no threat should be given for their continued existence.

5. There should be no hindrance to the movement of population from over-populated regions to under-populated regions. In the post-war period import and export transactions should not take place uncontrolled by the Government. The Government should control the transference of credit from one country to another. Blocked credit accounts should be started and should be used for the payment of shipping, insurance, interests on loans, dividends, etc. Appropriate machinery should be established to investigate the trends of world price level, production and trade and it should help to forestall slumps.

Public Health Reconstruction

The need for a comprehensive Public Health planning was not adequately realised until recently. Public Health, instead of being made one of the major planks of any programme of National Reconstruction, has been relegated to the status of a postscript. In his farewell message to the Central Advisory Board of Health, Lord Linlithgow pointed out the urgent necessity for "the solution of the vital problem of public health, on which so largely depends the happiness and well-being of India and of her people." Much has been talked and written about the magnificent natural resources as well as the gigantic man-power of India. But the ominous fact, that this man-power is being eaten away by the canker of disease and death, is overlooked, if not completely ignored. No nation that styles itself civilised can afford to witness unconcernedly the havoc played by diseases on her people. It is against all the avowed canons of reason, humanity and material well-being.

Nature of the Problem :—The colossal waste of human life, occurring in India every year, is set forth in all its tragic import in the annual report of the Public Health Commissioner with the Government of India. Even he who runs can see the writings on its pages—that among the countries of the civilised world, India occupies the unenviable position "of being one of the world's reservoirs of infection for small-pox, yellow fever, typhus, malaria and dysentery and main reservoir of infection for plague and cholera."

The magnitude of the tragedy can be seen from a few facts and figures taken from the latest annual report avail-

able. Judged by any standard, the health of India has descended to a deplorable level. The annual death roll reaching the staggering figure of over 6·5 millions, with the death rate ranging more than twice as much as in England, Sweden or New Zealand. With the infantile mortality of 167 per million, with more than 200,000 women dying every year in childbirth, with over a million being swept away by malaria and another half a million by tuberculosis, with cholera, plague and small-pox taking a heavy toll of human life and the average expectation of life dwindling to 27 years, betrays the devastating effects of death on human life in India. It is a record both humiliating and depressing. No nation can be prosperous and happy under these circumstances, whatever the technical or industrial advancement might be. India can be called a country of diseases and death.

Public Health Reconstruction:—In such a situation, Health Reconstruction should take precedence over any other kind of reconstruction. Strictly speaking it is not a question of reconstruction, but one of constructing anew. The problem of health should not be viewed from immediate results; a long view should be taken. Further as the Royal Commission on Indian Labour sums up, "the problems associated with health are always difficult; they are much more so in a country where both climate and the poverty and ignorance of the people contribute to recurring outbreaks of tropical and other epidemic diseases" (P. 244). The work of reclaiming the people to health would be long and arduous, and require perseverance, patience and even missionary real. The fruits of such work cannot be garnered immediately; we will have to wait for decades and perhaps for a generation. On account of this time-lag, the problem becomes a matter of immediate urgency. The time for inaction and delay is past. All the resources of the Health Department, Central, Provincial and Local, should be strengthened, reinforced and galvanized for wider service and action. Other departments of state should be co-ordinated with it. It is no longer possible to make any advancement in a single sector of human life; all the sectors are interdependent and their influences ramify over one another. Hence any plan for the reconstruction of health should take within its purview the allied problems of food, nutrition, poverty, ignorance, industrial conditions, social customs, religious practices,

climatic conditions, education, regional distribution of diseases, the sickness incidence rate, unemployment, sickness and old age insurance and factory and social legislation. To quote again from the Viceregal message "health administration if it is to achieve any substantial results, demands a considered programme and any attempt to deal piecemeal with the many and varied problems involved can but lead to a dissipation of effort and of financial resources."

The Bhore Committee :—The recent appointment (6th Aug., 1943) of the Central Health Survey and Development Committee under the chairmanship of Sir Joseph Bhore is a step in the right direction. That the chairman has full and deep appreciation of the problem is evident from his recent broadcast speech. He declared : "The health of the nation is the foundation on which the entire superstructure of all its development and progress, social, intellectual, moral and material, depends and plans for reconstruction in other spheres now being considered will be infructuous or yield an attenuated harvest of results unless the reconstuction is based on the foundations of a strong, healthy and virile people."

Food :—All the five "giants" as Sir William Beveridge calls want, disease, ignorance, squalor and idleness, the enemies of society which ought to be conquered, have to be fought by a comprehensive Health Reconstruction Plan. Every man, woman and child born in this land should be assured food and proper nutrition sufficient to enable a free and full growth of their physical, mental and moral powers. The Hon'ble Sir Jogendra Singh, the Member for Education, Health and Lands, in his recent speech to the Central Advisory Board of Health, stresses this point; "Food, good nourishing food, is essential for health. No health programme can succeed which fails to provide good nourishing food for all the people." He also assures us that "before the year 1944 ends, he will give the country a programme of agricultural development which will aim at providing nourishing food for all, a programme of health and housing aiming at equipping our whole nation with knowledge." In this connection, it is necessary to remind ourselves of Dr. Aykroyd's estimate that a minimum of Rs. 5 to Rs. 6 per capita per month is needed to provide an adult with minimum balanced nourishment. In view of the present scarcity of foodstuffs and the average daily

per capita income of $2\frac{1}{2}$ annas in India, the task of fulfilling Sir Jogendra's promise is indeed heroic. Thus the abolition of want, one of the aims of the Beveridge plan, may flounder in India on the rocks of poverty and lack of self-sufficiency with regard to food.

Nutrition :—Enough food should not be the criterion, but nourishing food. Col. MacCarrison says "Nutrition is the most pressing of all present-day problems in India. The greatest single factor in the promotion of good health is good food, and that we eat not only to live but to live well. It must be realised that normal nutrition and health cannot be maintained on many of the diets now used by millions of the Indian people. Their welfare demands the provision of food which will satisfy the physiological needs of the body." The Interim report of the Mixed Committee of the League of Nations on the problem of nutrition recommends : "Take all possible steps to make food supplies and especially protective foods as far as possible available at prices within the reach of all classes of the community, while at the same time safeguarding the interests of the producers." The resistance to diseases of the Indian masses is at a very low ebb. "Malnutrition and nutritional diseases are *omnipresent*," says Dr. J. B. Grant, Director, All-India Institute of Hygiene and Public Health. Nourishing food is the *sine qua non* to build it up. Here again crops up the factor of Indian poverty.

Education :—Healthy life requires ability to distinguish good from bad, a mind receptive to new ideas on hygiene and prophylactic methods, freedom from ties of unhealthy so-called religious injunctions and a resilience to adjust and adapt to new and changing conditions of life. In short, health means freedom from ignorance, from obscurantist social customs and from blind religious practices. All these can come only through a proper system of education. Health and education are closely interrelated.

The health of the human being from birth to death should be the concern of the Government. A trained midwife for every village, a doctor for every School and Town, a mobile dispensary for every group of villages, a hospital with sufficient number of beds for in-patients in every taluq headquarters, free and liberal medical relief should be the guiding motto of the state. The Beveridge plan aims higher still : "comprehensive health service will assure

that for every citizen there is available whatever medical treatment he requires, in whatever form he requires, domiciliary, institutional, general, specialist or consultant, and will ensure the provision of dental, opthalmic and surgical appliances, nursing, midwifery and rehabilitation after accidents." More remarkable still of this plan is to provide all these facilities to all if they insure themselves and pay at the rate of 10d. a week for adults and 8d. for women. It is interesting in this connection to know some points of Mr. Sargent's Scheme: the provision of mid-day meals in schools for all children as a step towards combating malnutrition, physical training to all, and 7,500 Medical officers and 15,000 nurses to run an efficient Medical Service. Mr. Sargent is of opinion that cost should not matter. We may say that this should be our ideal to be realised within a stated time.

Medical Help:—Medical help and relief falls into two classes—curative and preventive. The latter should receive greater attention than now. Considerable work of the latter type has been done in the case of epidemics such as cholera, plague and fell diseases like malaria. But there is a vast scope for more intensive work in this direction. For example, The Food Adulteration Act is capable of wider application. The organisation of a popular system of night soil conservancy for the rural population is an urgent necessity. A greater co-ordination between the Medical and Sanitation Departments is essential for better results. To produce the best results even agricultural, veterinary, Co-operative and irrigation departments should co-operate with the former pair. The complementariness of the various departments of the state should be better realised and its significance more firmly grasped.

Epidemics:—With regard to the periodical outbreaks of epidemics, it is to be hoped that the Bhore Committee will make a thorough study of their regional distribution, their causes especially religious festivals like Kumbha Mela at Haridwar and Allahabad. It should be the goal of any health programme to stamp out all the epidemics, and the curse of venereal diseases. Thanks to the noble efforts of the Marchioness of Linlithgow, much is being done to alleviate the horrors of the insidious and dangerous wasting disease of tuberculosis. Although charitable and public organisations are devoted to the prevention of leprosy, more strenuous efforts are required to prohibit the

regular influx of lepers into Cities. The leper seems to be the prince among beggars and he gathers round him satellites who are bound to be infected sooner or later with the cursed disease. All cases of leprosy other than fully developed being extremely infectious, adequate measures should be taken even at the outset in any programme of Health Reconstruction.

Industrialisation :—Urbanisation, a by-product of industrialisation, has brought in its wake a number of aggravating causes of diseases. The incidence of tuberculosis in urban areas is four times as heavy as in rural areas. The Chief Medical Officer, Delhi Province, lays stress on the overcrowding, congestion and insanitary home conditions and states that without slum clearance "all others fall into insignificance, if not complete uselessness" (page 55: Report of the Pub. Health Commissioner with the Government of India). The chawls, the cheris and the bustis are the nurseries of dreadful diseases and their destruction and building anew of clean, healthy working class dwellings must be made the first concern of a Health Reconstruction Committee.

Sickness Incidence :—A sickman is an inefficient worker and turns out less work. It is a colossal national loss to have too many sick people. The sickness rate in England, entailing incapacity for work is 2% and in the absence of reliable statistics, even if we take the rate in India as 4%, the number of people constantly sick would be somewhere near 11 millions. If this is mainly through lack of medical protection as it is contended, it is still worse since it is avoidable sickness.

Col. Scinton in his Health Bulletin No. 26 says: "Malaria gives rise to the greatest economic problem with which India is faced. The financial losses to the individual and the family alone have been calculated at no less than Rs. 11,000 lakhs annually or about £80 million per annum." The total number of registered doctors in India is about 42,000; the area served by a hospital or dispensary varies from 24 sq. miles in Delhi, to 1,327 sq. miles in Baluchistan and the average population served, varies from 11,305 to 81,087 in U.P. (A.C. Ukil: Some Aspects of Public Health in India, *Calcutta Medical Journal*). The per capita expenditure on medical relief varies from one anna in U.P. to Rs. 1-2-5 in Delhi whereas Great Britain spends Rs. 15 (1931) and U.S.A. spends Rs. 30

(1932) per capita on Medical and public health protection. The general average per capita expenditure in India is only $3\frac{1}{2}$ annas. India spends 3·4% whereas Great Britain 22·7% of the revenues on Medical protection. Hence as Dr. A. C. Ukil remarks, "the villager in India is no more benefited by modern science than his forefathers before the advent of the British rule." The state should not shrink from any amount of expenditure in this field. As the Whitley Commission pertinently remarks, "expenditure on public health, besides yielding an immense return in human happiness, is bound to produce great economic advantages. There are few directions offering such great opportunities for profitable investment on the part of the state." (P. 243.)

Social Insurance :—Sickness cannot be prevented by statute. It would require assiduous care, indefatigable energy and untiring zeal on the part of an elaborate medical and sanitary organisation. But suffering due to sickness can be alleviated to a considerable extent by sickness, unemployment and accident insurance. The National Health Insurance Scheme in Great Britain provides for medical assistance and other benefits in cash or kind to over 15 million people between 16 and 70 years. The Health Reconstruction Committee should be responsible for the promotion of such insurance schemes both by the State and private agencies. It can also encourage Universities "to consider the health problems of rural and urban populations and survey the wide variety of health plans which are operating throughout the nation" as the recently established institute on Public Health Economics of the University of Michigan does with the aid of a grant from the Rockfeller Foundation. It can also arrange for the pooling of all the efforts of all the departments of the State—Medical, Health, Sanitation, Agriculture, Co-operation, Communications, Veterinary Industries, Irrigation and the Fisheries. No department should fail to keep the health of the nation as one of its primary objectives; for, if health is lost, what else is there to be saved?

The problem of Public Health is many-sided and complex. It has to be solved if the material prosperity and happiness, the end and aim of all human activities, should be maximised. The programme has two aspects, preventive and positive: prevention of diseases is not the

final aim but positive improvement of general health—the attainment of robust good health. It is, under the present circumstances in India, a herculean task requiring armies of workers fighting ill-health, disease, destitution, epidemics, ignorance, hunger and malnutrition on various fronts. The problem of keeping the Indian nation in good health means making one-fifth of the human race healthy, further emptying and cleaning out the "reservoir" of great scourges, and finally it may mean making a large part of the globe healthier. In a task of such magnitude we should derive courage from the inspiring words of Sir Jogendra Singh, "we can look forward with confidence to the day when we may be able to replace the National War Front by a National Health Front, and when the immense resources of men and materials and the untiring energy and labour which have had to be devoted to the present struggle, can be turned to the task of the betterment of mankind."

Wartime Economic Controls

A Requiem for Laissez-faire :—Controls may be defined as State interference with free market economy—" a system of laissez-faire in which everybody does what he likes with himself and his possessions."[1] The State does not interfere, under such a system, with man and his disposal of scarce means beyond what the administration of justice, defence and the maintenance of certain public works and institutions. Complete laissez-faire brooks no activity whatever on the part of the State. This notion of laissez-faire is a diehard fallacy that has adventitiously crept into the corpus of economic doctrines. "The popularity of the doctrine must be laid at the door of the political philosophers of the day, whom it happened to suit, rather than the political economics."[2] Even for Adam Smith, non-intervention "was a general principle and not a rule. He was no doctrinaire, and he never forgot that to every rule there are some exceptions."[3] The popularisers of this doctrine waxed eloquent over the invisible hand evolving social benefit out of private selfish-

1 Benham, *Economics*, p. 10.

2 J. M. Keynes, *The End of Laissez-faire*, p. 18.

3 Gide and Rist, *A History of Economic Doctrines*, p. 96.

ness but "the phrase laissez-faire is not to be found in the books of Adam Smith, of Ricardo or Malthus. Even the idea is not in a dogmatic form in any of these authors."[4] In spite of its popularity, thanks to vulgarisers, no state had remained without actively interfering with the manufacturer, agriculturist and the trader as the mass of social legislation clearly proves.

Interference thus initiated from social and humanitarian motives, has led in the present century to state intervention of very significant kind. It may be of two kinds:

1. Compatible with the free market economy, and

2. Incompatible with it.

Tariff on imports unemployment insurance acts belong to the first category. They affect the working of the market only indirectly without introducing any structural change in the free market economy.[5] The second category consists of import and export quotas, credit rationing, compulsory closing down of factories, prohibition of cultivation of certain crops, fixation of maximum prices, regulation of labour supply, industrial conscription, etc., where the free operation of supply and demand is tethered or throttled up altogether. Intervention of the first type has become innocuous even in the eyes of the popular laissez-faire doctrinaire. That of the second type, a la-mode in all States since the Great Depression of 1929—31, has made laissez-faire as dead as Queen Anne.

Controls Galore:—The second type of intervention, that arrests or claps up the "scissors" movement, really deserves the name, "control." The exercise of such control is noticeable in recent times in all States and in all types of economy. In times of peace, cyclical fluctuations of trade have necessitated intervention. A country, which has slid into the trough of a slump, enacts certain measures either to alleviate the distress or to promote recovery which belong to control proper according to our definition. The economic philosophy of abundance, gives place to a philosophy of regulation and control. The in-

[4] J. M. Keynes, *The End of Laissez-faire*, p. 20.

[5] For this and the following discussion *vide* Karl W. Kapp: Economic Regulation and Economic Planning in *Amer. Econ. Rev.*, Dec. 1939.

ternational schemes for the restriction of the important metals like tin, copper, zinc, nickel and basic foodstuffs and raw materials like wheat, sugar, coffee and cotton are glaring examples of these new experiments in controls. In the post-depression period there came into existence a litter of marketing controls and control of production to prevent a catastrophic fall in prices. As Prof. Pigou remarks, "the existence of surplus capacity is the fundamental disease and falling price only a symptom."[6],[7] The controls in the years of depression were aimed at pegging or holstering up the prices. In peacetime economy, the villain of the piece necessitating State action is the trade cycle.

A defence economy is an intermediate situation between peace and war economies. When a State prepares for defence against bellicose neighbours or launches on a plan of *Wehrwirtschaft* as the Germans call war-preparedness, the Government intervention in the economic sphere becomes pronounced.[8] Preparedness economy began in Germany from 1935, when armament expenditure jumped from $400 in million to $2·5 billions, in Englnd from 1937, when the principle of financing Defence Services by taxation was abandoned, and in France from the rise of the Daladier Government in the spate of Decrees, which Hitler issued after his advent to power in Germany are in essence controls by virtue of their serious interference with the free economic system. Nazi control extended to all branches of economic life: Strikes were prohibited by legislation and wage rates for the most part were frozen at the levels of the depression of 1932. "The restrictive economic regulations and decrees already issued under the Nazi regime make a formidable list."[9] Before the outbreak of the war, great inroads had been made into the once sanctified sphere of free economic enterprise.

[6] Nazi control extends to all branches of economic life. Strikes are prohibited by legislation and wage rates for the most part, remain frozen at the level of the depression of 1932—Nazi Economic Policy in *Economist*, July 31, 1937.

[7] A. C. Pigou, *Economics in Practice*.

[8] Frederick, Pollack, Influence of Preparedness in Western European Economic Life, *Amer. Econ. Rev.* Part II, March, 1940.

[9] *Nazi Economic Policy* in *Economist* July 31, 1937.

War-Time Controls:—When the war actually broke out, freedom of enterprise became the first war casualty. For the efficient prosecution of war and rapid mobilisation of all the available economic resources, governments were compelled to extend the system of controls. The British Government, on the day of the declaration of war, took over the entire railways system of the country. The controls of the governments in all the belligerent countries extended their tentacles to every nook and cranny of their respective national economic lives. The per capita equipment of a contemporary army and its destructive capacity are of such scope and dimensions that they imply "total war." Even in Adam Smith's time, he was struck by the costliness of war; he says, "A musket is a more expensive machine than a jevelin or a bow and arrows; a cannon or a mortar than a balista or a catapulta."[10] Hence the State action proceeds like a steam roller flattening out the economic life of the nation to suit its only aim of winning the war.

Even the neutral countries, at the present moment are not immune from this octopus of Government controls. "Sweden's traditional economic freedom has been lost in a cloud of decrees and restrictive regulations and a full war economy has in fact been established; . . . to this end the Government has taken under control practically the whole of foreign trade. All exports are subject to license to exclude the possibility of re-exporting imported contraband goods."[11] Thus it is obvious that neutral as well as belligerent powers universally exercise controls over the economic activities of their peoples. Looking back over a period of a quarter of a century, one finds that *laissez faire*, which had been more or less accepted as a general policy at the commencement, has, by the end of the period, broken to pieces like humpty-dumpty; to-day controls are omnipresent. India, like any other country of the United Nations, is contributing her magnificent share to win the final victory. She has become the arsenal of the empire and is bravely doing her duty of helping the war in two theatres of War. In this great exertion she is straining her utmost. In India also, the web of controls is ubiquitous.

[10] Adam Smith, *Wealth of Nations*, Vol. II, p. 198.

[11] *Economist*, Oct. 28, 1939, p. 130.

Before an enquiry is made into the causes for the emergency of these controls, it is useful to examine their similarity or otherwise in the three forms of economy, mentioned above. None can challenge the proposition that preparedness economy is followed by war economy as day by night. It is not incorrect further to add that peace economy in the present century is not true but pseudo-peace economy. A little analysis of the peace-time budgets of the major powers and the allotment made in each for the Defence Services will convince any reasonable man that peace time had always been pregnant with war potentiality. It differs from the other not in kind but only in degree. It is a tragic irony that in the world to be made safe for democracy after the war to end war, States should have been spending a lion's share of their revenues on piling up armaments. But it is a fact towards which one should not adopt an ostrich-like policy. We have to concur with Major Hesse, who "stresses the point that defence-, peace-, and war-economy are only different stages of one and the same thing."[12] This discussion of the intimate relation, in the present-day world, between war economy and peace economy, leads us to one inevitable conclusion, *viz.*, that war is always latent in the body-politic.

Controls of peace time give strength and direction to controls of war time.

"The given fact of the world situation, as we have known it hitherto, is not peace but war and the danger of war."[13] War-time controls,—most of them,—will survive war. "War economy, new style, to-day, is no longer super-imposed upon a peace economy, as it was in the world war No. I, but takes its roots in preparedness economy and this preparedness economy is sure to survive the war, until Europe is placed on a lasting peace-basis."[14]

Necessity for Controls :—Some idea of war-time economy is essential to understand the causes for controls. Modern wars are not won by a show of courage and personal bravery. War has been mechanized. The per capita equipment of a contemporary army and its destructive capacity are of such scope and dimensions that

[12] *Economica*, Feb. 1942, p. 72.

[13] Lionel Robbins, *The Economic Causes of War*, p. 61.

[14] Frederick Pollack—*Ibid.*

they imply "total war." Total war demands total effort. It demands the intense and immediate mobilisation of all the economic resources, men, machinery and materials. Raising the army, navy and air force, turning the factories to war-time production and diversion of raw materials from civilian to military consumption, conserving and if possible improving the supply of essential war materials like oil, iron and steel, bauxite, etc., are the immediate needs of the State at war.

In war time, it is scarcely possible to import from abroad ammunition or essential raw materials for two reasons, *viz.*, the countries, capable of supplying them might have turned into or fallen under the influence of, enemies or shipping and other transport facilities may not be available due to submarine activities. In either case the nation at war has to meticulously conserve whatever essential materials they possess at the moment. Conservation takes the form of avoiding waste or using them for civilian consumption. The mines, factories and every productive apparatus should be working to full capacity. But their working is governed by supply of raw materials, produced within the country or imported from abroad. As the war is being waged, the civilians should be kept not only alive but also their morale high. If a large portion of the productive capacity is diverted to satisfy the insatiable hunger of the military machine, the civilians would be denied certain vital necessaries; conversely, the military machine will become weak due to short supply of essential commodities.

As the war prolongs, the war machine will make a gargantuan demand on the total supply of goods and invariably cut into civilian consumption. Then will ensue a period of scarcity resulting in high prices and prices will have to be controlled if there should be equitable distribution of the commodity in short supply.

Features of War Economy :—The modern war is no longer exclusively heroic : nor is 'won on the playgrounds of Eton' but on the farm and in the factories. It is a conflict between the farms and workshops and mines and mills of the nations quite as much as between the armies in the field.[15] Man fights with machines; the more dead-

[15] Carnegie Foundations, *Government Control and Operation of Industries.*

ly the machine, the more easy is the victory. The sinews of war are shells, bombs, torpedoes, guns, tanks, flying fortresses, etc., which a government can obtain by one or more of three ways :—

1. Full employment of all the economic resources, taking in the slack;
2. Shifting production from non-essential peace-time commodities to essential war-time supplies; and
3. Importation of materials and supplies from foreign countries.

Of these three methods, the first is of little importance in Western countries, which had approached "full employment" sometime before the outbreak of war, ever otherwise it cannot by itself the gigantic war demands. The third method is more precarious and unreliable as trade with enemy countries is out of the question, with neutrals very difficult due to contraband control and with the Allies, possible at the risks of submarine or U-Boat menace.

Taking in of slack implies the full use of all the unemployed or under-employed factors of production, involving shift system in factories, drafting the old, young and the idle rich to work and the prohibition of strikes and lockouts.[16] The turning of peace-time industries to a war: time key, drastically reduces the production of civilian consumption goods and its success is measured by the magnitude of the reduction effected. The farmer, factory owner, labourers, the railwaymen and the rest have to serve the ends of war. If they do not, animated by patriotic fervour, voluntarily change over to the new conditions of the life, they will be compelled by executive orders, *i.e.*, controlled. To augment the supply by means of imports from abroad is to introduce further regulations of foreign trade. Thus controls attend every effort of the Government to maximise war production.

At any particular moment, the productive apparatus of any country is limited and in war time it has to be yoked as far as possible, consistent with the maintenance of the civilian population contented, to war service.

[16] Pigou, *Political Economy of War*, p. 41.

Fresh investments of capital in industry should be steered to those possessing war potential. Banking and finance should serve as hand-maids of the war God. These, again, involve another series of regulations. The enormous scope of modern war necessitates control of an interference with every activity of the ordinary citizen. Modern governments realise the significance of the civilian morale and adjust their control machinery accordingly. They make allowance for civilian consumption but within strict limits. The civil population is persuaded, in certain cases, to forego certain commodities and in other cases, is compelled to take only the statutory rations. However, every effort is made to meet the insatiable demand of the war machine by intensive industrial mobilisation, conservation of all the essential war materials and their augmentation as far as possible, by imports. In the prosecution of the modern war, there is no more important question than that of economic policy and no more important arm than that of industry, commerce and finance.[17] Economic strategy, instead of being a supplement, has subordinated to itself military strategy. According to the *Economist*, Oct. 28, 1939, the Ministry of Supply in Great Britain would become the biggest and the most comprehensive trading organisation in the world.

The most salient features of war-time economy are full employment, overtime work, short supply of goods, soaring prices, queues in the absence of effective rations and rising money earnings which contrast glaringly with those of normal peace economy, *viz.*, idle resources, glut in the market, sagging prices, and low money earnings. War creates scarcity in the midst of plenty. "In war," Lord Keynes says "we move back from the Age of Plenty to the Age of Scarcity."[18] In short, War brings about a revolution in the economy of a country and as a consequence, even the most free democracy experiences the growth of a formidable array of controls.

I have discussed at length the problem of control and endeavoured to show that *laissez-faire* is an outworn creed. Western nations found it imperative to discard it during the days of preparation for the present conflagration. When the present war assumed global proportions,

[17] Durbin, *How to Pay for the War*, p. 238.
[18] J. M. Keynes, *How to Pay for the War*, p. 17.

all countries, belligerent, non-belligerent and neutral, found it necessary to introduce control whether in order to mobilise the productive machinery of the land in aid of total war, or to keep at arm's length the evils threatening the state by the unprecedented rigours of present-day world conditions. If any one lays the flattering unction to his soul that when the times of peace return countries can speedily revert to good old *laissez-faire*, he is bound to be disillusioned. Hitherto the material resources of India have been mobilised for winning the war. The time has now come for us to realise that as soon as the war is over, this mobilisation cannot be dropped but has to be reoriented for winning the greater victories of peace. In the post-war period, India's unexampled man-power and material resources can be utilised in the interests of her people; or in the interests of others. It is up to us to realise, that we have to see to it that the war controls are carried on into peace time and utilised by capable and sympathetic hands for the promotion of India's wealth and welfare.

Freedom from Want :—In fact, wealth and welfare should be the objectives of all post-war controls. The aim should be steadily kept in view to bring about a maximum utilization of the material and human resources of the vast sub-continent of India in the interests of all its inhabitants. Such a plan will lead to the providing for all Indians the minimum of necessaries like food, clothing, housing, medical help and education. In any scheme of social welfare, provision for cheap, abundant and nourishing food should take the place of honour. Taking as basis a family of three adults and two children, the minimum annual food requirement for this unit would be Rs. 240, if we are to take Dr. Aykroyd's standard, while other essentials like fuel would demand an additional Rs. 120. According to this computation, every individual with a family, requires Rs. 30 per mensem, excluding contributions for social insurance. This would involve a provision for a total income of at least Rs. 3,000 crores a year. At the same time, it must be borne in mind that this is only the minimum; the average is bound to be higher and therefore in order to ensure the minimum to all, the national income will have to be many times this figure. Similarly, the present per capita consumption of cloth has to be increased threefold, and this would mean an addition of hundreds of crores of capital to the cotton textile in-

dustry, which has at present a total block capital investment of Rs. 400 crores in the mechanized production and Rs. 20 crores in the handloom industry. The scope for large investments is equally evident when we turn to the problem of housing for the people. About a century of educational effort in this country has given us only 9.5% literacy, while the literacy level for other civilized countries is 75%. An unprecedented expansion in educational effort is a *sine qua non* for any real progress and this again involves huge amounts of capital and recurring expenditure. Tremendous efforts are needed, for tremendous issues are involved.

It is a blot on civilization that 1/5 of the human race should live in perpetual starvation, miserably perishing for lack of food, clothes and shelter, steeped in ignorance, harassed by disease and darkening the sunshine of the world's health and prosperity by serving as a perennial reservoir of diseases, plagues and epidemics. What else may one expect when the most optimistic estimate of per capita income in India is the paltry sum of Rs. 108? And when war and scarcity stalk the land, they die in their thousands like flies by the roadside, a grave and bitter testimony to man's inhumanity to man. While war's dire engines lop off thousands on the battlefield in the great theatres of war, here in India, we see thousands perishing at our doors. Is it too much to ask that every nerve should be strained, every power mobilized to prevent the repetition of such catastrophes and make India safe for healthy living and high endeavour? No effort should be considered too arduous, no expense too heavy for carrying into execution a comprehensive plan which will include both agriculture and industry. Whenever in the past a plea was made for nation-building activities, an old horse, named lack of capital, was trotted out by obscurantists; fortunately this horse is now lame: and we are now so circumstanced in India that there are various sources which can be tapped for bringing about this capital development. Hitherto, estimates of capital requirements in India have been only partial but this deficiency can be easily made up. Where there is a will to bring about a new order in India, the way can surely be devised. If there is to be an easy transition from a war economy to a peace economy, if India's millions are not to be for ever starving, ignorant and suffering a co-ordinated plan for

industrial and agricultural development is a prime need. The announcement by the Government ten days ago of their intention to constitute a committee to enquire into and report on the planning of post-war scientific and industrial research for India is to be welcomed. I trust that the Government will likewise see the need for setting up a committee for All-India Industrial planning. The importance of such planning was realised years ago by the U.S.S.R., and we in India can profit by the experience of the Soviets in carrying out their First Five-Year Plan and avoid the popular suffering and the rigours involved in their momentous scheme of capital development. The vast sums involved and the scope and extent of the changes effected can provide us an example and an inspiration.

At this juncture in our national economy it would be worthwhile for us to consider how countries like Russia and Germany were able to finance the development of their giant industries. Modern economic events in the West have shown up the jugglery of monetary equilibrium, and few students can fail to realise that economic power depends ultimately on man-power and raw materials. And in these two respects—man-power and raw materials—India stands as a great power by the side of U.S.S.R., China and the United States. Nevertheless, the present plight of the average man and woman in India is tragic. Side by side with this spectacle of terrible human suffering, we see our countryside neglected and undeveloped, and its rich resources left undisturbed, locked fast in primitive neglect. How much neglected and how much undeveloped, one can easily visualize, when one recalls that as the Grand Trunk Express speeds across India from Madras to Delhi past rivers and plains and forests. Scarcely does the eye light on a factory chimney or a highly industrialized and built-in area or a scientifically cultivated plot of garden land; but there is a monotonous succession of bare, barren fields, of virgin forest, of vast areas over which the hand of man seems seldom to have been busy in tilth or his brain active in production. What a picture it must be for a man to compare in his own mind, if he has also travelled through the English countryside with its gardens and villas, huge built-in areas and vast tracts and forests of smoking chimneys. And yet this frightful human misery in the midst of the untapped treasures of bounteous nature is avoidable. Says Dr.

Keynes in his *Essays in Persuasion*, "The Economic Problem, as one may call it for short, the problem of want and poverty and economic struggle between classes and nations, is nothing but a frightful muddle, a transitory and an *unnecessary* muddle. For, the Western World already has the resources and the technique, if we would create the organisation to use them, capable of reducing the Economic Problem, which now absorbs our moral and material energies, to a position of secondary importance." Success often comes in spite of muddles, but no thinking man can subscribe to a policy of muddling through. I, for one, cannot disguise the fact that 'an ounce of planning is better than a ton of muddles.'

Any planned scheme of economic development for India must not be a slavish imitation of Western industry with its urban civilization and perpetual clash of classes. Industry at the present day has reached a stage when it is dependent for its very existence and survival on the sympathy, encouragement and active support of the State. When a State like India wants to promote new industrial ventures, it can itself undertake the organization, and see that it is worked in the interests of all the people. Even if new enterprises are entrusted to individual or corporate management, the State should insist that the benefits thereof flow equally to the whole community and are not utilized to promote the profits and interests of a few. In other words, the planned economy of post-war India must be so conceived and designed that surely and inevitably it will lead ultimately to a socialistic new order in India.

The changes that are called for in the field of agriculture also point in the same direction. If agriculture in India is to be a profitable industry the middleman who is nothing less than a parasite on the industry must be eliminated. The trend of opinion in all parts of the country is in the direction of buying out middle-men's interests in land by paying them adequate compensation. Another measure for the improvement of our agriculture is the encouragement of collective and co-operative farming. These measures are admittedly radical and revolutionary; but they are necessary in order to raise the national income and provide a national minimum.

At this point, let us turn our attention to a grave and serious responsibility of the state, *viz.*, social insur-

ance. Now that the Beveridge Scheme is engaging so much of public attention it would be worth while to examine its applicability to India. It professedly aims "to abolish want by ensuring that every citizen willing to serve according to his powers has at all times an income sufficient to meet his responsibilities." The scheme is calculated to eliminate the sufferings due to unemployment which normally arise in the competitive economy of a highly industrialised nation. Sir William's proposals consolidate a large number of already existing schemes for relief in connection with old age, sickness or interval of unemployment between one employment and another. The scheme has evoked criticism even in England as offering a premium to idleness and as putting a damper on initiative. Apart from that it is clear that a scheme like Sir William Beveridge's is primarily meant for a highly industrialized country where there is a long tradition of unemployment relief. India is primarily an agricultural country with only a small percentage of its population engaged in industry. In India, the difficulties in the way of practically implementing a plan of the kind are many. We do not have in India a larg class of permanent employers and employees. Sir William Beveridge himself speaking on the "Four Freedoms in Relation to India" observed " The main problem of freedom from want in India is to my mind concerned with raising the efficiency of agriculture." As far as industry goes, Sir William is concerned only with the proper distribution of it with reference to places where people can live happily. He would introduce the principle of insurance as part of the development of Indian industry. He would begin social insurance in India by applying it first to sickness, to providing income for sickness and treatment of sickness. The Government of India have already in preparation a scheme for sickness insurance in India, and it is good that Sir William Beveridge has focussed attention on this very necessary measure. At the same time it is clear that India is yet very far away from any prospect of providing for all the activities of its citizens from birth to death. Indian economy cannot in the near future undertake such a comprehensive scheme for both agriculture and industry. At present the Indian state must provide health insurance, old age pensions and compensation for industrial accidents. As already point-

ed out the best security that the citizen of India can get today depends on increase of employment, on acceleration and enlargement of production and on raising up the level of national income all which are calculate to pave the way for a happier and more prosperous India.

But, instead of getting lost in visions of the future, let us appreciate the urgency of the problems that confront us and their supreme importance for the future of our country and ultimately of the whole of humanity. In the middle of the 20th century we, in India, are living in a mediæval economy, with the rich man in his castle and the poor man at his gate. The staggering disparity between our present poverty and our potential prosperity should continue no longer. If our present economic backwardness is not to leave behind an inheritance of suffering and misery to generations yet unborn, if modern civilization is not to proceed from one catastrophic total war to another still worse, India should be strong in herself and capable of standing as an economically prosperous nation eager to co-operate in the extension to victor and vanquished alike the benefits of the fifth clause of the Atlantic Charter: "To bring about the fullest collaboration between all nations in the economic field, with the object of securing for all improved labour standards, economic advancement and social security."

The planned industrialization of India is advocated, therefore, not out of a spirit of competition but out of a clear awareness of the supreme importance of a global interdependence wherein every progressive nation must be able to pull its weight. Our desires, thoughts and strugggles for wider industrialization, have met with apathy and inattention in the past. Difficulties of various kinds have again and again cropped up. And yet if the opportunities of today are not to be missed leaving a tragic trail of suffering for the morrow, prompt and energetic action is called for from the state. No modern industry can thrive in any country, however advanced it may be, without a full measure of support from the government of the country. Here, in India, far-sighted and sympathetic statesmanship has got unparalleled scope for inaugurating an era of plenty and prosperity for all sections of the vast population of India.

Given a unified plan for the whole of India, the carrying out of the plan may be entrusted to the provinces.

There should be centralised management and decentralised fulfilment. What is wanted to-day is drive, initiative and leadership. May we be granted wisdom to see clearly, courage to plan nobly and faith to transform the visions of to-day into the achievements of to-morrow! However long the path, however arduous and exacting the journey, let us go forward with the conviction that our goal is no less than a brave new world of health and happiness, international peace and world-wide co-operation.

DIEHARD IN DREAMLAND

A burlesque conversation between the Ex-Grand Duchess Anna Anachronistivitch of Russia and an economist Mr. Dauntless Diehard.

[This dialogue was staged on the opening day of the Economic Conference and found so much favour among the assembled economists that it has been decided to include it in the Conference Number of the Journal.]

Anna.—Oh, Mons. Diehard, I'm so distrait. When I fled from Russia, I had hoped to leave behind me the heretical doctrines and the satanic practices of the bolshevists. I had hoped to forget altogether that lunatic, Marx. But I found evidence of his surreptitious influence all over Europe. Not even England was exempt. First, there were taxes; then all forms of irksome control, then more taxes. Finally, when the war came, I found England too avaricious to hold me. Just imagine, Monsieur Diehard, 19 shillings in the £, over nearly half my income! And so I came to the United States, this land of genuine freedom and Christian charity.

Diehard.—That is true, Madame. Here at least you can make millions without the Trade Unions snatching them from you, and the Government robbing you of the rest.

Anna.—That is so, Monsieur Diehard. But tell me, do you believe in these new-fangled notions of planning and pandering to the clamour of the 'canaille'?

Diehard.—Madame, I am prepared to swear before the assembled might of economic learning, by the principles of *laissez-faire*. My belief is that economists would not have brought discredit on themselves, if only they had maintained the old attitude of aloof superiority. When they began to meddle with plans, none of them turned out as foreseen.

Anna.—Tell me, Monsieur, do you believe in Income Tax, and in taxes on excess profits?

Diehard.—Madame, I have always firmly upheld the benefit theory of taxation—those who pay most should benefit most. I have always thought that taxes on profits

kill enterprise. My theory is that the recent rise in taxation is the main reason for the increase in the severity of the slump.

Anna.—Do you see any purpose in fixing prices?

Diehard.—None at all, Madame. Further, I believe it does definite harm. Prices are indications, as any first year student will tell you, of the consumers' wants. If you fix them at any level, they fail to fulfil their function. But neither economists nor economics ever fulfil their function these days.

Anna.—If you had enough power, you would make an altogether different world, would you not?

Diehard.—Madame, the dream of all right-minded economists has ever been a world of perfect competition. If you care to come with me, I shall give you an idea of what it is like.

Anna.—A votre service, Monsieur!

Diehard.—Then, Madame, behold and rejoice. You see here a world of perfect competition. It is a land overflowing with milk and honey. Everything abounds, everything is cheap. No seller will dare sell above cost price. Diamonds are as cheap as dust.

Anna.—Oh, that would be enchantart, Monsieur. I mean per-r-fect. I don't think I could ever have enough diamonds. But—wait—I am in doubt. If diamonds are as cheap as dust, then the wives of Tom, Dick and Harry will all buy diamonds.

Diehard.—So equitable is this system.

Anna.—Oh, well, I don't know, if I shall quite like that. But you can't have everything your own way, I suppose.

Diehard.—Also, Madame, goods are so abundant that no one suffers from shortage of any kind.

Anna.—But consider, Monsieur, my special brand of perfume—will it also be abundant? I should like to be exclusive in my dress, my jewellry, my toilette . . . . .

Diehard.—That is what Voblen calls conspicuous waste, Madame. It will disappear in a perfectly competitive economy.

Anna.—Conspicuous! Of course, it will be conspicuous if the parlourmaid is seen wearing what would suit a duchess alone! And what more can your world boast of?

Diehard.—The best is yet to come, Madame. All

things in our world are infinitely divisible. There is absolutely no waste—no hint of what we economists term excess capacity either in men or in material. You can produce as much or as little corn as you please. Machines are divisible and you can always get the best out of them as they are never too large. Labour . . . .

Anna.—But, if, as you say, Monsieur, labour is divisible, a man may suddenly find himself divided into two beings, if being a single unit is less economical?

Diehard.—That, Madame, is necessary in a perfectly competitive world.

Anna.—M'sieu, you mean to say, I shall suddenly find myself in two?

Diehard.—Not at all, Madame. A duchess is not a factor of production, she is only an important factor for consumption.

Anna.—Heaven be praised for that! Mr. Morgan, my husband, is a banker, can it happen that I shall return home one evening to discover two husbands instead of one?

Diehard.—Financiers are entrepreneurs. Entrepreneurship is divisible. Yes, Madame, your foreboding may come true. But in the interests of . . . . .

Anna.—Many forebodings seem to come true over here, if I may say so. And pray, M'sieu, what else has this per-r-fect competition to offer?

Diehard.—Resources, Madame, are perfectly mobile. To-day you are the owner of a copper mine: to-morrow it becomes an oil well. No calling is closed to anyone. You can be a doctor, a miner, or a porter. As all labour is mobile, incomes will be equal.

Anna.—I see, M'sieu. And so the butcher will earn as much as my husband does. And I shall have to suffer the indignity of seeing my charwoman in pearls, and of having to invite her to my parties—à mes soirees.

Diehard.—Pearls only become a duchess, Madame. But there will be far more equality in our order.

Anna.—You cannot deceive me sir! Why this is worse than the rankest Bolshevism. Equality indeed! And I thought I could trust you as a friend of the old order! I shall go back to Russia immediately, M'sieu Diehard.

Diehard.—But, Madame,—wait. Before I go further, I must explain to you the principle of the time lag.

Anna.—Pray, M'sieu, what is that?

Diehard.—It means that theory in Economics lags far behind practice. It is sometimes easier to tear a miser from his money bags than an economist from his assumptions. The world I showed you cannot be realised, as it is based on unreal assumptions. For long it was our belief that the less you looked at the world, the more you know about it.

Anna.—I can more than forgive the theory for that. But don't you ever try and explain facts?

Diehard.—We are trying to, Madame. We started with duopoly—two sellers selling the same thing. But we have not been able to tell what the price will be.

Anna.—But why? I should have thought that would have been easy enough.

Diehard.—You see, Madame, we don't know how to begin. If one seller assumes the output of the other as fixed we have one solution; and if he assumes that the price is fixed, we have another.

Anna.—But, M'sieu, why should anyone assume anything so 'stupide'? They wouldn't actually believe that, would they?

Diehard.—We don't know what . . . . .

Anna.—You don't know anything, if you ask me. In your world of per-r-fect competition all men are demi-gods. And now in d-u-o-poly, you make them imbeciles. But we shall never descend to the real world, if I don't make your. Why did all the economists, save a few like you, cease to believe in *laissez-faire*?

Diehard.—There were two reasons, Madame. One is War, the other is the Trade Cycle.

Anna.—What is the Trade Cycle? Some kind of machine?

Diehard.—Madame, it is the economic merry-go-round. The whole world is forced to sit on it. There seems no escape.

Anna.—Escape, M'sieu! Why should anyone want to escape from a merry-go-round?

Diehard.—Because it is not always actually merry, Madame. The upswing is enjoyable, but when you come down with your purse emptying itself all the way, you begin to prefer stability and peace.

Anna.—Surely, you being economists should be able to give the world that?

Diehard.—Madame, the Court which tries to determine the guilty party, sits in judgment eternally. All economists have abandoned their separate quests and have turned detective to hunt down the criminal. But we have not yet quite succeeded in tracking him.

Anna.—Will I be permitted to have a peep at the proceedings, M'sieu?

Diehard.—With pleasure, Madame. There are many who have been tried and found not guilty. Mr. Hawtrey thought that the magician Money, was the villain of the piece. They found that he invariably made himself scarce during the depression. But in 1932, they cheapened money and yet the depression persisted. So he was absolved.

Anna.—How can Money ever be to blame? It makes the world go round.

Diehard.—And then came psychology. They thought that the brains of the businessmen became periodically addled. Booms were caused by limitless optimism and slumps by black pessimism. A few of us thought that the sunspots were to blame, but we could not bring them to the dock.

Anna.—Dear me, it looks as if your brains are addled. Once you drag in psychology, and then you drag in astronomy. At first you make men demigods, then imbeciles—now with the Trade Cycle, they become nervous wrecks. Really, M'sieu Diehard, what next?

Diehard.—Now, Madame, that Sherlock Holmes of the economic world, Lord John Maynard Keynes, has brought to heel a whole gang!

Anna.—How clever of him. And who are the gang?

Diehard.—The first, Madame, is a lady called Propensity to consume. Her craze for preserving a slim figure is such that the more she is given, the less she consumes.

Anna.—I sympathise with her sentiments, M'sieu.

Diehard.—The archfiend is Marginal Efficiency of Capital—given to fits of hysteria, and a tendency to collapse. The last is Liquidity Preference, an inveterate drunkard, who, when he cannot get a drink at the bar, swallows the lubricating oil, and brings the machine to a standstill. He is aided and abetted by the Magician Money. These are responsible for the merry-go-round of boom and slump.

Anna.—And these booms and slumps have led to the abandonment of *laissez-faire*?

Diehard.—Mainly, Madame. These have resulted in a plethora of planning.

Anna.—And what exactly are these plans?

Diehard.—Madame, I can easily explain myself. When tried in Germany, it is called Fascist fanaticism; when tried in the United States, the success of the New Deal; and when tried in France, the failure of the Blum experiment.

Anna.—And they have quite overcome the depressions?

Diehard.—In a way, yes, Madame. In a way, no. In the Reich, unemployment is at an end. For while the demand for butter is easily satisfied, the demand for guns is not. So if you produce only guns, you can be sure of work for all.

Anna.—But they don't work. They want bread, M'sieu Diehard.

Diehard.—If you do away with political *laissez-faire*, Madame, you can effectively prevent anyone from telling you so. Besides bread is promised in the long run—with the coming of Lebensraum.

Anna.—And is that all Germany has done?

Diehard.—No, Madame, the Fuehrer has completely brought the Magician Money into his power.

Anna.—How did he achieve this feat?

Diehard.—There is only one way, Madame—through the power of a greater Magician.

Anna.—Who is this greater magician, M'sieu?

Diehard.—His name is Dr. Schacht. Money in his time has played many sad tricks on our world. He is as fickle as his mistress Fortune. He can make you a millionaire to-day, a pauper to-morrow. To-day he sides with Marginal Efficiency, to-morrow he deserts him, and allies himself with Abstinence. You can never rely on his word. But now, in Germany, his independence is gone. He has become a Nazi and cries, "Heil Hitler", with the rest. Inside Germany he performs the trick of undervaluation for the mark; outside Germany, the trick of overvaluation. If money is over disobedient, Dr. Schacht threatens to exile him, and put his bitter rival Barter in his place.

Anna.—But, M'sieu, I thought that money took its orders always from gold.

Diehard.—Madame, as a duchess, it is your privilege to think behind the times. But the kingdom of gold is neither here nor there, it is within you. There it stays, as a primitive prejudice. All the gold now is in the United States, where it affords the common spectacle of royalty in refuge.

Anna.—Then, M'sieu, I am overjoyed to be here. I feel safer in a country which has a stake in gold.

Diehard.—The world too thought so, Madame, when all the currencies offered allegiance to gold. But he was a hard task-master, and the most respectable of his subjects, the impeccable pound sterling, was the first rebel.

Anna.—M'sieu, tell me about the New Deal in America?

Diehard.—President Roosevelt formed a Brain Trust, Madame, but soon found that he could not trust the brains to set things right.

Anna.—Then whom could he trust?

Diehard.—Nobody, Madame. That was the beginning of the end. He tried to please everybody, and found he could please none. He raised farm prices and found that wage earners disapproved of the rise in the cost of living. He strengthened Trade Unions, and found Big Business against him. Industrialists wanted tariffs, but agriculture opposed them. He could do nothing without offending someone or the other. Finally, that Council of antediluvians renowned for their sanity—the Supreme Court of the U. S. A., disapproved of the New Deal, because it was new and almost declared the President illegal.

Anna.—And what about England? Surely these ridiculous attempts were not made in the home of Cobden and Smith?

Diehard.—I am sorry to say that the infection spread even there, Madame. England forgot free trade, and piled up tariffs against the better judgments of her better economists.

Anna.—But why did they build up tariff walls?

Diehard.—After the war, there were so many industries clamouring for protection. Our industries then discovered that they were infants too. In this they were honest, Madame, for many of them are in their second childhood.

Anna.—And which are these other countries?

Diehard.—Oh, the whole of Europe; and even parts of Asia, Madame. To give you an example—India is one. There, all the economists are Lists.

Anna.—How are you interested in India, M'sieu? It is so far away and after all does not concern us. I do not remember its name being mentioned in the Atlantic Charter, which was drawn up recently.

Diehard.—The British Government is sending me there on a special mission, Madame. Mr. Amery told me himself that I was a man after his own heart, and that in India my qualities will be duly appreciated. For there, I am informed, the Government still believes in economic *laissez-faire.*

Anna.—Doubtless then, the people there are really prosperous.

Diehard.—No, Madame, that unfortunate country is the classic case of poverty in the midst of plenty.

Anna.—But surely, now that there is a war on; the Government cannot let well alone? How will they pay for the war?

Diehard.—Madame; that is the problem, I am being sent to solve. It is difficult as the people are so poor.

Anna.—That ought not to stand in your way, M'sieu?

Diehard.—Madame, it does not. But we cannot realise enough through taxation. All taxation as you know, is robbing Peter to pay Paul; but in India, the Pauls are too many and too poor, and the Peters are too few in number.

Anna.—But, M'sieu, why trouble about taxing the public when borrowing is so much easier?

Diehard.—It is not easy in India, Madame. Either they think that they are too poor to lend or too patriotic. They are full of false notions.

Anna.—So what do you intend doing, M'sieu Diehard?

Diehard.—These people cannot save, Madame, but they can starve. Starvation in India is practically a tradition. They positively revel in fasts—I think I shall encourage the habit as a measure of wartime economy. As a matter of fact there is a scarcity of almost every article of necessity in India.

Anna.—But there is always scarcity in wartime, Monsieur. I remember it was impossible to get silk stockings in New York two months ago.

Diehard.—Yes, Madame, but a rich country does without silk stockings in wartime. A poor country must do without food.

Anna.—So there is hardly anything in India? It must be very difficult to carry on the war in such circumstances.

Diehard.—Madame, there is a scarcity of everything except money. We too have tamed that Magician. He must shake the pagoda-tree at our bidding, or he will be arraigned under the Defence of India Act. The pagoda-tree is easy to cultivate. After all the seed is our sterling. Technically, the shaking of this tree is termed inflation.

Anna.—And what exactly is inflation?

Diehard.—Madame, the Indian economists are still engaged in a heated debate on that problem. If the goods are halved, that is called scarcity, if money is doubled, then that is called inflation.

Anna.—But surely, M'sieu—the ratio is the same in both cases. What is there to argue about?

Diehard.—Madame, if you were acquainted with the ways of economists you would know that they either have one name for two different things, or two names for the very same thing.

Anna.—Doubtless, M'sieu, a great asset to clear thinking. But how exactly can the problem be tackled?

Diehard.—Well, Madame, only statistics can give us the correct proportions. But India cannot afford statistics. The people there are too poor to measure their poverty.

Anna.—Don't Indian economists think of planning for plenty? Or are they all dreaming of the so wonderful world of per-r-fect competition you had the temerity to show me?

Diehard.—Madame, all of them are keen on planning. But what is the good of writing a book on how to plan feeding four hundred millions when the Government refuses to plan for even one million?

Anna.—Ah, I do fear that in Bengal there is a famine. Is this too, due to *laissez-faire*, M'sieu? But if the Government has nothing to do, why are you being sent there at all?

Diehard.—Madame, the Government has a great deal to do. But now it is occupied with financing the

making of cannon and cannon-fodder. We must look to the army at present. For though we are dead only in the long run, the army is dead in the short run.

Anna.—Oh, M'sieu, I am weary of listening to your dismal tale. Life in Soviet Russia seems not so bad after all. I suppose there will be still more plans in the post-war world.

Diehard.—Plan or no plan, Madame, I have while expounding my beliefs to you, realised an ancient truth.

Anna.—And cette inspiration—this inspiration, what is it M'sieu?

Diehard.—The voice of my heart, Madame, crying in the wilderness. It is this—that no man can serve two masters; for either he will hate the one, and love the other, or else he will hold to the one, and despise the other. You cannot serve God *and* Mammon.

ECONOMIC CONTROLS DURING THE WAR.

DISCUSSION

December 30 and 31, 1943

B. R. Shenoy.

Principal B. R. Shenoy (Ahmedabad) made the following speech on this subject :—

I wish to raise three points, which have occurred to my mind while I was listening to the papers read on the subject of war-time economic controls and the discussion that followed. First, the theoretical background of rationing, second, the objective of rationing and third, the alleged official ignorance of the elements of the political economy of war.

Rationing of consumption goods, though it limits personal consumption directly, is not, strictly speaking, essential to war finance. For, it is not through rationing that additions are made to the real war fund of the nation, in the sense of the men, machines and materials essential for the prosecution of the war. It is not as if rationing cuts down the actual demand for consumption goods, thereby brings about a reduced production of them and thus sets free some of the agents of production engaged in the consumption trades for the benefit of the war fund. Though this is quite feasible theoretically, in practice, it is the other way about. For, it is administratively more convenient to cut down civilian supplies than to work the same thing up through rationing. Rationing would require the setting up of a large, costly and rather cumbrous machinery, which must necessarily take time, whereas the cutting down of supplies at their source may be effected with much greater despatch. Also, if the production of consumers' goods were to be left free, the device of rationing alone being relied upon to restrict their output, the danger of leakages at the expense of the national war fund in the machinery of rationing would be great.

The real justification for rationing, therefore, must be sought not in the immediate and direct needs of war, but elsewhere. This takes us to the second point which I wish to make. The objective of rationing would seem to lie rather in the fear of the social place being threat-

ened and the possible harmful effects of this on the war effort. For, in the absence of rationing, as a result of the keen struggle to secure a share of the limited supplies, the distribution of consumption goods among the masses of the population may become chaotic. Though the proportion of the total supplies of any staple article of food that is consumed by the rich may be small, they may indulge in hoarding large stocks of them. Among the masses of the people, some may be able to collect barely their requirements, others little or nothing at all. And the consequences of this may be serious, especially in free countries with democratic constitutions. Such a state of affairs may also seem ironical when the nation is supposed to be engaged in a war which is aimed at rendering the world safe for democracy. Rationing, in other words, is essential to the maintenance of peace and quiet on the home front.

When these considerations do not prevail, the necessity for introducing rationing is correspondingly less. This would seem to provide the broad explanation for the absence of rationing in India on a country-wide scale. The capacity of the people in this country meekly to suffer the difficulties which may come their way is classic and, if isolated disturbances do sometimes arise, experience has shown that they can be effectively overcome with less elaborate, though more drastic, devices than rationing. Also, the existing administrative costs together with the inevitable war-time additions made to them being already disproportionately high, it would be a colossal drain upon the available resources of the country to instal a machinery for nation-wide rationing when the urge for economy is so great. In the case of large cities, however, in which public opinion is specially vocal and the fear of widespread and serious food riots may be very real, the balance of advantages may be on the side of rationing.

This would seem to provide the correct cue to the official policy in India with regard to rationing, which takes us to the third point which I wish to make. If there is not nation-wide rationing in India, but only in some select cities and towns, it is not because the Government of India and their advisers are ignorant of the inequity and the possible harmful effects of it upon the rest of the country. That in the absence of rationing in

the country-side, there is a danger of the villages being drained of their supplies for the benefit of the towns under official incentive or pressure, and that this may render miserable the lot of the villagers is but a simple corollary of the situation which is easily derived. It is certainly not a discovery of the learned folk in India nor can the Government of India and their official advisers be ignorant of such an elementary phenomenon. Considering the views which some of us hold with regard to rationing, especially that it is through rationing that resources are made available for the prosecution of the war officials, with perhaps greater justification, might retort that the boot is on the other leg. If some of us come across officials in charge of rationing who are quite unaware of the first principles of its theory, the case we are trying to make is not established. These people are not responsible for the decision on the question of whether rationing should be nation-wide or should be confined only to the more noisy towns and cities. Perhaps their opposite numbers in no part of the world are more enlightened than they with regard to the theory of the subject. But it seems to me too much to try to maintain that policy decisions are or have been taken, during the present war, in Delhi and White-Hall, completely advised as they are, with utter ignorance of the elements of the political economy of war. This view may possibly be due to our failure clearly to appreciate the Government's point of view, which, in many vital respects is, as it is bound to be, materially divergent from that of ours. Errors of judgment apart, from which none of us can be wholly free, when we see the Government's angle of vision and interests, we would perhaps agree that their decisions have been carefully thought out and, on the whole, well executed.

R. K. Bhan.

When Dr. Bhan (Srinagar) was invited to speak he admitted that price control measures had failed to fulfil the expectations of those who were its ardent advocates but that should not anyway lead to defeatism. It was time for introspection and immediate application of remedies however drastic they might be. While analysing the causes of failure the following ones appeared outstanding :—(1) psychological people in this country had so

long been accustomed to free Economy that controls did not appeal to the psychology of the masses. Lack of civic or corporate sense and public co-operation with the controlling authorities were no mean obstacles. (2) The controlling authorities, especially in food grains, had to rely on statistics pertaining to agricultural products which, to say least, were unreliable. (3) The control Departments were manned by officers drafted from odd walks of life, who lacked both theoretical and practical knowledge of problems entrusted to them. (4) The price control of commodities could hardly be expected to achieve a full measure of success in the face of galloping currency inflation.

Dr. Bhan explained to the Conference the greater degree of success achieved by His Highness' Government Jammu and Kashmir in their control measures inasmuch as the obstacles mentioned above were surmounted, may be by a process of trial and error. He disagreed with the previous speakers in that the regional controls could-not at all stand by themselves without the control of the Central Government. Without minimising the importance of co-ordination at the centre, he asserted that smaller regions, determined to enforce their control schemes by exercising a stringent watch over their activities, could achieve a great deal of success. Dr. Bhan also referred to other forms of control, especially over capital-issues and the effect of such restrictions in British India, on Indian States as it involves flight of capital from the former to the latter.

J. J. Anjaria.

Mr. J. J. Anjaria (Bombay) said that as regards the theoretical implications of price control, there could hardly be any difference of opinion among economists. Prices were just indices; if it was sought to control them, we must go to the forces behind them. Since the free market mechanism no longer functions during war-time, it becomes necessary to substitute at each stage deliberate decisions in place of the automatic market adjustments. The point of discussion could only be the possibilities of success of such measures in India in view of the unorganised character of our economy and the inefficiency of the administrative machinery. These difficulties were illustrated by the food situation in Bengal.

Even the success of the new food policy of greater control by the Centre adopted after the Gregory Committee's Report would depend upon factors like the people's co-operation and the efficiency of the administrative machinery. As regards rationing, in theory the case was clear enough for all areas, urban as well as rural. In the absence of rationing, at the price fixed, the demand would be greater than the supply. This would mean black markets, queues and general discontent. The speaker could not accept Principal Shenoy's view that rationing had been recommended for urban argas on grounds of political expediency. The real explanation was quite simple: the task of rationing the rural population was simply beyond our present administration. As things stood at present, economic controls in India could not work as successfully as, say, in U. K. This point must be kept in mind when advocating controls such as, for example, anti-inflation measures. We could not, safely, take the same liberties with our economic system as some other countries can, because of this relatively smaller efficacy of our control arrangements. Thus, in regard to the food problem, since a thoroughly centralised system of purchase and distribution was not possible, there was a real danger that as urban rationing succeeded, the rural areas may have to suffer, unless imports on a much larger scale than that envisaged by the Gregory Committee were forthcoming. It was difficult, under present conditions, to conceive of a satisfactory system of procurement which would avoid inefficiency on the one hand and any coercion or injustice on the other.

D. G. Karve.

Principal D. G. Karve (Poona) made the following observations :—

It is wrong to argue that because price control has failed in some areas in respect of some commodities the whole principle should be abandoned in favour of profit control. In fact the alleged failure of partial price control is in a large measure due to the fact that it was attempted piecemeal. When all areas for all essential supplies are together put on a controlled basis price control will be technically very much easier. Profit control, as an alternative to price control, is a course of action forced upon certain local administrations because of their

inability to control the supply. To think of profit control as an alternative on a comprehensive basis would not only be technically unsound, but it would put a premium on price inflation. Whether for price or for profit control the technical and administrative qualities of the organisation set up to deal with them are very vital considerations. By leaving the general administrative personnel of the Government to deal with the new responsibilities of control Government is denying to itself the services of experts and experienced people. Other countries have drawn largely from these classes to man their economic services. The same ought to be done here. Moreover in such matters as procurement and distribution in place of the revenue and executive machinery agricultural and supply departments should be put to use.

S. V. Ayyar.

Mr. S. V. Ayyar (Dacca) speaking on this subject made the following remarks :—

Some speakers on the question of 'Controls' have suggested that the economists had not been consulted on matters of control and failure of controls must be traced to want of technical knowledge on the part of administrators. This seems to me rather very amusing and merely indicates a self-complacency in the academic economist. Up to a degree the academic economist is interesting, but when he goes on to say that he alone knows and that all else must learn from him the talk borders on the ridiculous. We all agree that there must inevitably be controls during war time. But the sort of control that we have had has been full of difficulties. I do not wish to go the whole range of controls in India, but confining myself to the question of control of prices in food-grains in Bengal during the last few months, I must say that Government started at the wrong end in attempting to fix ceiling prices without proper and adequate procurement and without any proper machinery to put into effect real price control. Last August when the Bengal Government fixed maximum prices for rice, rice disappeared from the market and for some time people had to buy anywhere at any price. Some speakers have airily indulged in the cheap jibe that consumers who go to the black market must be punished very severely. Someone remarked that both the profiteer as well as the

consumer must be shot! Yes, but who created this type of profiteer? And if a man has to starve for rice, black market or white, we must eat, and we must have to get our necessaries anyhow! You must have remained in Bengal to see the appalling misery of the population for months, and it is a wonder to me why the government of the province and the country should not have studied the problem earlier. I have no doubt in my mind that it was negligence or inability. When after four years of war, government finds itself in a position of utter ignorance or incapacity to work out schemes of effective control of supply of the necessaries of life, it fails in its essential duties. Even after many months of experience of famine conditions we in Bengal districts have yet to have a proper scheme of rationing of food-grains. We do not know even now how much or how little we shall get for the next day or week, of the essential requirements. We have no proper or adequate machinery for successful procurement or satisfactory distribution—essential for any scheme of control of prices. At Dacca, the second city of Bengal, the Central Relief Committee started functioning as a voluntary organization for the relief of the destitute during the worst days of the famine, and later by a silent process converted itself to the self-imposed task of supplying food-grains through the different mohallas to the city's population. The mohalla committees consist of honorary workers and it is not wise to tax these persons and strain their loyalties far too long. It is difficult work, and the distributing machinery must function on a business basis and be under the strictest control and audit by proper authority. Further the work of rationing is the direct responsibility of government and they must do it so that responsibility may be faced. Co-operative Societies like the Triplicane Urban Co-operative Stores, Ltd., which have done so much to assist the government in Madras by acting as distributing agents in any rationing scheme are just the organizations that the government should have encouraged in Bengal, and failing that agency, the greatest use must have been made of the trade agencies for working out a rationing scheme. Government is undoubtedly provided with qualified men who are or must be able to think clearly and act strongly. Rationing is essentially an administrative problem and must be treated as such. If there be administrative inefficiency

well, there is no hope for rationing or anything of importance to the common people. Let us hope that the government of India and the different provincial governments would take the people into their confidence and even at this late hour try to work out a proper scheme for an effective control of prices and adequate supply of important articles of consumption. The home front is as important as the war front, and it would be criminal to fail in feeding the people at home in the attempt to carry on the war abroad.

M. G. Lakshminarsu.

Mr. M. G. Lakshminarsu (Hyderabad) who also participated in the discussion on "Economic Controls" spoke as under :—

I thought I had a Priority to speak first this morning. But others have been given over-riding Priorities. A barbarian and shop-keeper, I find it difficult to speak after the star speakers. I have therefore a grievance against the President in his allotment of Priorities and Rationing of the Menu. As I listened to some of the speeches I felt exactly the same feeling as I had yesterday when I was flying over the Eastern Ghats. Most of the speakers have been flying over an altitude of over 20,000 ft. But my feet are grounded on this earth. Drs. Rudra and Madan—the Robert Taylor—of this Conference have been alternatively touching my head and heart. But I am afraid, they have failed to face the facts boldly. Dr. Karve, disavowing all intention of introducing politics, has dealt with it. I have heard these speakers with considerable interest.

Generally speaking I am in agreement with the 'Blanket Control' introduced by the Government of India. But will it solve the problem, the problem of supplying the ordinary necessities of life at a reasonable price to the poor and unhappy countrymen of ours? That is the problem. In the circumstances the country finds itself to-day, I wonder whether all the ineffective and inefficient controls and anti-hoarding and profiteering ordinances will be productive of the desired results. I am honestly doubtful of the Ordinances producing and solving the food problem in this country.

In U.S.A., and even in the British Isles the civilian consumption commands a first rate Priority. In our

country we have no such good fortune. Why not a similar Priority be given to civilian consumption in India?

U.S.A. started a cash and carry policy immediately the hostilities broke out in Europe. Even the U.K. was compelled to pay cash against her purchases in U.S.A. Why should then an obliging Government print currency notes to finance the purchases of the Allied Governments in this country, although it may be against the sterling balances accumulated to our credit in London. We have to-day about 870 crores of currency notes thrown in the country, without any appreciable increase in the production of consumer or capital goods, with the result there is a galloping inflation. Everywhere you see the slogan "Use less paper". Still so much of useless paper is printed into currency notes. How can you stop inflation and the consequent increase in prices so long as these notes are being printed and thrown into the market like cinema notices? If we are honest about our intentions to control prices we must find other methods of financing the war than printing currency notes. Why not the Allied Governments pay for their purchases in this country in Gold or float rupee loans in this country?

We have more than 500 crores of rupees of sterling balances to our credit in London. Why not these be sent to India or at least a considerable portion of it be released for the purchase of capital goods very badly needed in India?

Canada, Australia and U.S.S.R. have taken advantage of the situation created by this war and developed their industries. Even now if India is allowed to develop her industries the position would be different.

India has been made the base for the S.E.A. operations against Japan. We are determined in throwing out Japan from our neighbourhood. Army, navy and air-force from all the Allied countries including Smuts' and Curtins' whitemen are coming to participate in these operations. Why not these nations be compelled to export food and other consumer goods to meet the requirements of their troops? We are told that shipping is a problem. If shipping space could easily be made available to bring whisky and toilets surely shipping space could be found for the export of food to this country.

With the loss of Burma, we lost several millions of tons of rice. There is no compensating entry. In-

stead of conserving the available materials, the U.K.C.C., and other huge corporations were allowed to operate on this market. Our transport and distribution methods have miserably failed. Every time an Ordinance has been promulgated, the materials affected thereby have gone into the Black Market. Black Markets are thriving splendidly and several people have been making millions in these black markets. How is it that these Black Markets are allowed to exist and operate? What action has been taken against the continuation of these Black Markets?

Millions of people are dying out of starvation and the various controls have not brought food to save the starving millions.

We have heard of the campaign—grow more food. Startling figures of increased acreage under crops have been since this campaign was started. What are the results? How can you grow more food when there are no men, when cattle are lead into the butchers' shops, when there is no steel to provide shoes to the cattle or tyres for the carts or agricultural implements and when the cultivator has no grain even for sowing? You will therefore appreciate my scepticism about the utility of these blanket controls. They do not, I am afraid, solve the problem. We must have an energetic national food policy and programme. But so long as the 'Singapore Mentality' prevails and so long as the constitution, character and personnel of the Government of India remains what it is, there can be no effective solution. The only effective solution consists in having a Government of the people for the people. That will restore confidence and that can solve the problem. Can you have it? If you Don't, God save us. (Cheers.)

Prof. R. N. Poduval (*Annamalai University*), **Mr. M. Abdul Quadir** (*Osmania University*), **Prof. V. S. Ram** (*Lucknow University*), **Mr. V. V. Ramanatham, Prof. A. I. Qureshi** (*Osmania University*), **Mr. B. Govinda Rao** (*Andhra University*), **Mr. Sh. Ataullah** (*Aligarh University*), **Mr. J. Satyanarayana, Mr. K. S. Somachalam, Prof. S. K. Rudra** (*Allahabad University*), **Dr. Lokanathan** (*Editor, Eastern Economist*), **Prof. Gyan Chand** (*Patna University*), **Dr. V. K. R. V. Rao** (*Delhi University*), **Prof. C. N. Vakil** (*Bombay University*) **and Dr. A. Krishnaswamy** (*Madras*) **also participated in the discussion.**

CURRENCY EXPANSION DURING THE WAR.

DISCUSSION

January 1, 1944

M. S. Adiseshiah.

Prof. M.S. Adiseshiah (Madras) spoke as under:—

The fundamental factors operating in our economy to-day, which demand immediate and serious attention, are clear and obvious. No useful purpose is served either to Government or people by dividing expert opinion on the issue into the so-called monetary school and the so-called short-supply school. It is agreed on all hands that the exigencies of War have forced the Government to create simultaneously the short supply of consumer's goods available for civilian consumption and the enormous inflation in our currency. While the diversion of all kinds of goods and services from civilian to military requirements was and is unavoidable, the inflationary process, by which this diversion has been brought about and with which it is being accompanied, is both avoidable and cumulatively disastrous. A unanimous expresssion of expert opinion on the responsibility of state for the decreased stock of goods and services available for civilian use, which is not however peculiar to our War economy, and for the inflationary spiral of business incomes and prices, not found to such an extent in any other belligerent country, is called for from this conference at this stage. If the responsibility for this primary and secondary aspects of inflation rests with Government the remedial measures are then its responsbility. The situation is serious, and hence the measures called for, are difficult and drastic. The termination of the present arrangements for financing allied purchases in India, which have acted as the main inflationary factor, and its replacement by other well-known methods of finance obtaining in other countries, are an immediate necessity.

Failing this course, and taking as given and unchangeable the present methods of financing allied purchases in India, a rather more complicated and round-about measure of neutralising the growing volume of note currency in this

country may be considered. It is a method of control tried successfully by Germany in foreign exchange before the war and within the country after the declaration of War. Its adaptation to our country would involve, first dividing economy into two sectors—the Defence sector and the Civilian sector. By such methods as distinctive markings, different numberings, the note currency issued against sterling securities should be kept within the Defence sector and should not be allowed to flow into the civilian sector. Secondly this would mean that the Defence sector must be made commercially and economically self-sufficient. Firms, factories, retail stores and other production and consumption units should be established within the military sector covering the defence services and their accompanying industrial counterpart such as workers engaged on War work. Thirdly a rate of exchange would have to be established between the currency used in the Defence sector and that used in the Civilian sector to meet the points at which the two sectors come into contact with each other—*e.g.*, the purchase of civilian goods for defence purposes. Such purchases, however, must be reduced to the minimum: and this would be possible if farms and factories and firms are placed directly in the Defence sector. Finally plans must be made now for providing investment opportunities at the end of War for those who hold this currency in the Defence sector at a rate and in a manner that would maximise the inducement and minimise the lack of incentive to productivity in the present.

If this proposal is not accepted,—and with the political and other limitations of the already overburdened administrative machinery in our country, the chances of its acceptance are small—yet another line of action demands immediate attention. And even if the drastic measure suggested above is accepted, a certain amount of time is bound to elapse before its implementation, and during this period alternative action needs to be undertaken. This action is demanded when contemplating one of the aspects of the vicious spiral of inflation in our country. The increasing profitability of industries engaged in Defence production, has inflated business incomes, added on to the rise in prices and worsened the position of fixed income holders. There are two factors in our economy which are unique and which must be taken into consideration here. First the Keynesian

generalisation that in a given situation the propensity to consume may be considered a fairly stable function so that an increase in the real incomes of a community will not lead to an increase in its consumption by an equal absolute amount, applies with peculiar emphasis in our country today. For it is here that the second factor enters. And that is, that the large mass of consumers in our country are fixed income holders. The majority of consumers are fixed income holders technically so-called and agricultural labourers whose incomes are fixed. In face of the decreased stock of goods available for civilian consumption, the inflated incomes of the business community and the rise in prices, there has taken place a fall in real incomes as far as the vast majority in our country is concerned. This fall in real income has been met by an increased demand for consumption goods and a decrease in mass savings: and this goes on cumulatively. This surely is the accepted conclusion of all modern analysis of the propensity to consume of the community. The position of the fixed income holders—the vast majority of consumers in our country—has steadily worsened and worsened at an alarming rate. The remedies so far tried to meet this situation, *viz.*, increasing dearness allowances, reversion to pre-congress regimes and scales of pay, are worse than the disease. They tend to accelerate the inflationary forces at work. Hence a carefully worked out scheme of income control needs to be applied in our country. In the first instance this could be tried in the Presidency cities and larger towns as an accompaniment of rationing and price control. All incomes above a certain level must be neutralised for the duration of the War and later gradually released into investment and reconstruction channels. The machinery required for this is simple and available. It might lead to migration of urban incomes to rural areas. That is a desirable development from the social and economic point of view. There is no escape from a comprehensive scheme of income control in urban areas, if inflationary tendencies are not allowed to run riot.

I. M. Kapoor.

Principal Kapoor (Lahore) first made it clear that he was going to say something which was likely to be very unpopular and unacceptable to a large number of

the members of the audience. He was going to, as he put it, commit an act of heresy. But he said he never courted cheap popularity and that he had committed such acts of heresy on some previous occasions also and had suffered for them, but in his view anything was not the less scientific for the simple reason that it happened to be unpopular.

He drew attention to the world trends in currency matters since the last war. He pointed out how one of the contributing causes of the unprecedented and unconscienably long drawn out depression of the latter twenties was the deflationary monetary policy followed by the world in the wake of the restoration of the gold standard. This deflationary policy had, however, to be abondoned in 1931 and the world began to move in the opposite direction in the early thirties' of this century. The inflationary swing, therefore, had already started and the world had been well on the way to an inflationary phase when it was caught in the whirlwind of the present war. He did not deny, therefore, that inflation had taken place but that inflation was not really as bad as it is depicted to be. While the German Experiment tried in early twenties clearly showed the dangers involved in unbridled inflation, the English experience of early thirties may be taken to have established that it is possible to make use of inflation and derive the utmost advantage from it, by keeping it under control and that it is not necessary that it must get out of control if once a resort is made to it. He said there were sets of circumstances under which there is no other way for escape for the world than the resort to inflation. He defined inflation as expansion of currency leading to a precipitous fall in the value of money (rise in the price-level in a short period of time over and above the customary level). The world rightly left the worship of gold in 1931 and currency began to expand. He thought that instead of unilateral action being taken by one country at one time and by another on another occasion, it would have been better if world had moved in step and the currency chaos of the early thirties had been avoided. On top of all that came the present war. As is well known there were only three stock methods of financing such catastrophes, *viz.*, taxation, borrowing, and inflation. Principal Kapoor thought that no one could suggest that only taxation

would have yielded satisfactory results, nor could taxation and borrowing combined suffice. There was, therefore, no escape from inflation. When this was the situation even in a country like England, India could not reasonably expect to participate in the present war and still avoid the necessity of inflation. The evil consequences could have, however, been anticipated and precautions ought to have been taken so far as possible to guard against disasters of starvation and misery. No one could deny that the present famine in Bengal was at any rate partly due to the present inflation but with proper care and management a large part of the misery could have been avoided. In the early twenties, Principal Kapoor pointed out, Germany had resorted to inflation on a far greater scale than India has done now and still from his own personal observation (as he said he visited Germany thrice between 1922-24) he could say that there was nothing like the Bengal Disaster. The war demands for goods were bound to raise prices. This tendency was equally bound to be accentuated as a result of the expansion of currency. An inevitable consequences of all this was a change in the distribution for the worse so far as large masses of people were concerned. Price control and rationing were, therefore, necessary. The former could not possibly be effective without the latter, which was also necessary in the interest of preventing starvation of the large masses of poor people in our country. No very great intelligence was required to foresee this. The undesirable developments, therefore, ought to have been anticipated and provided for at all costs.

When all this is said and done the necessity of inflation could not be denied. We have sold large amounts of goods to England for the prosecution of war and we have been paid for them. An expansion of the media of exchange whether in the form of currency or in the form of credit was, therefore, bound to take place. Rise of prices also was an equally unavoidable consequence. Ifi this rise of prices had led to a sufficiently large expansion of production it would not have mattered—nay it would have been a most desirable development, both from the point of view of India's Economic uplift as well as for the prosecution of the present war as successfully as India could afford to make it. But in the absence of a sufficient expansion of production speculative rise of

prices was a natural consequence. It is to be most regretted that even under this dire necessity the Government of India could not see their way to help Indian enterprise and thereby expand production in this country. Even if we had a national government we could not do without inflation. Till very recently almost the whole of India with one voice was crying for 1s. 4d. exchange rate as against 1s. 6d., which meant that we ourselves wanted an expansive monetary policy to be followed. If we had joined the war on the side of the Allies independently and not as a result of India being a part of the British Empire we would have inflated our currency even to a greater extent (taking, of course, precautions against the evil consequences like starvation).

India has become a creditor country. We require all the money which has been created during the present war. And if India is to have a quick enough march on the road to economic prosperity, we shall need much more. The whole of Indian Economic life is to be completely overhauled and remodelled. We shall require much more money for this than we have created so far. America after the last war did not make a wise use of her creditor position. She hungered for gold and created a useless mound of the yellow metal which was only a dead weight—an artificial (*i.e.*, a man made) gold mine. She, therefore, ransomed the currency systems of all the countries of the world and through that the world economy as a whole. She demanded gold and would not accept goods in the discharge of the debts which other countries owed her. When she obtained it she sterilized and buried it underground rather than put it to use for the development of resources of the undeveloped parts of the world. She helped Germany no doubt. But that proved to be a hopelessly wrong move because in this way she enabled Germany to rearm herself for another death struggle for the world. She was perhaps not in need of all this gold and other resources for the development of her own industries and the exploitation of the natural gifts within her borders. But it would have been better if her accumulated wealth was put into service of undeveloped countries.

We on the contrary are in a position and also in very great need to make use of our creditor position in so many ways. We can buy up foreign concerns in India.

We can solve the most serious problems of rural indebtedness. We can industrialize our country and develop our communications. We can start investing abroad. We can expand our banking which is indispensable for the advancement of our trade and industry as well as our agriculture. For all this we need proper canalization of the funds that we have accumulated. But we want a national plan for economic reconstruction which will be carried out by a National Government which unfortunately we do not possess. The trouble therefore is not economic (*i.e.*, inflation) but political.

V. R. Pillai.

Prof. V. R. Pillai (Travancore) offered the following remarks :—

It may be said that the present inflation in India is, and is not, the consequence of a budget deficit. The subtle distinction between an inflation caused by a direct budget deficit and one caused by an indirect deficit arising out of expenditure on account of another Government, gives the clue to the explanation of this apparent paradox. So far as the Indian budget is concerned, the deficits of the War years and the defence expenditure on capital account have been more than covered by the increase in rupee debt and the sales of silver. But the rupee finance provided by the Government for the British and Allied war expenditure in India, against the payment of sterling, has accounted for a vast expansion of currency with all its inflationary consequences. The inflation in India is thus seen to be the indirect result of a budget deficit in England, whose 'incidence has been imported into' this country by the present arrangement for providing rupee finance.

The distinction between a direct deficit and an indirect deficit is, however, fundamental from the point of view of inflation. Dr. B. K. Madan, in his paper, has rightly stressed this point, and shown how the ultimate as well as the immediate effects tend to be different in the two cases. The financing of a direct deficit by the issue of additional purchasing power would be a 'naked inflation' without any cover for the new notes. In the case of an indirect deficit, on the other hand, the notes will get the backing of assets received from the foreign country, on whose account the expenditure is incurred. In the former case, the public reaction would

be so pronounced that the effects would tend to be cumulative and the flight from the currency may rapidly manifest itself with disastrous consequences on the internal economy. In the latter, the possession of assets makes all the difference. These assets, while forming the basis of currency expansion in the present, may be expected to act as a potential reservoir for damping the inflation in the future. Immediately also, it may hold the inflationary tendency in check by its favourable psychological effects on public confidence.

No one will dispute the soundness of these theoretical propositions; but their application to the actual conditions of Indian economy has given room for much confusion of thought. It is often overlooked that the importance of the above distinction between a direct and an indirect deficit hinges, not only on the existence of assets, but also on their nature and realizability. In the case of India, the huge accumulation of sterling assets has given rise to just misgivings in certain quarters. If the assets were in gold, their universal acceptability and the prospect of ready exchangeability for goods in the future, without fear of loss, would have had a profound influence on the ultimate, if not the immediate, position. The same cannot be said of sterling assets. Firstly, it is feared that in view of the liquidation of the bulk of Britain's external resources, and the enormous growth in her indebtedness, she may be faced with an adverse balance of payments in the post-war period, which might depress the value of sterling itself. Secondly, it is held to be unlikely that Britain, with her competitive position in the world markets considerably weakened, will be able to produce an export surplus sufficient to liquidate her obligations in the near future. The realization of the sterling assets, therefore, will present all the baffling complexities of the 'transfer problem' with which the world is only too familiar. The experience of India with the comparatively small sterling balances after the last war is also not encouraging. Thirdly, the sterling balances themselves may prove detrimental to our foreign trade by giving it a direction which is inescapable. Lastly, the pessimists may even sound a note of warning that all the pious hopes of post-war reconstruction based on sterling assets are a little premature, before the final allocation of the war expen-

diture is made and the volume of these balances is known.

All these considerations are relevant to an examination of the effects of inflation in India. The first favourable reactions to the growth of inflation potential, as evinced by the increased holdings of liquid money and the upward trend in the cash balances of the commercial banks, cannot be expected to last long. This is gradually reflected in the air of suspicion with which the public views our rapidly accumulating sterling assets and their rupee counterparts. A flight from the currency to goods is already in evidence, especially in the rural areas. Thus the comparative advantages claimed for an indirect budget deficit are greatly minimised by the nature of these assets. In a sense, the present form of inflation is even more treacherous than a direct one, because, in the case of a direct inflation, the immediate public reaction to it and the fear of impending disaster would set certain limits; whereas, here, inflation goes apace goading people into the belief that everything will right itself once the war is over, on the basis of a security which might after all prove illusory.

T. Hanumantha Rao.

Mr. T. Hanumantha Rao pointed out that the distinction drawn by Dr. Madan between the 'Scarcity School' and the 'Monetary School' is the result of an incomprehensive understanding of the economic theory and its implications. He himself has, rightly enough, observed in his Paper, that the problems of inflation and scarcity are the two facets of the same problem, the diversion of real resources from civilian to war services. But he never tries to bring out the relationship between scarcity or shortage of goods and currency expansion. An attempt in this direction would have enabled Dr. Madan to visualise the problem in a lurid relief and suggest the right remedies. But,. curiously, he catches the wrong strain and goes on to argue out the ways and means of fighting out inflation paying lip sympatly to 'Production' as a good but impracticable measure. This way may be representative of the intellectual muddle in which a large number of our economists and those at Simla are to be found due to a bad imitation of the British economists. Or perhaps, it may be the

intellectual dishonesty, the chief feature of the administration that moulds our destinies.

If the pages of any book on 'History of the Economic Thought' are turned back, the first impression one gets is the flexibility and the absence of permanency of all the concepts in our science. To take the concept of inflation, in the days of the Mercantilists it meant an increase in the volume of currency over and above the security of the precious metals. We find next, an indirect tampering with the definition, in the shape of putting the gold security to a lower percentage. Those were times when gold could not be obtained in profuse as before. Then we are ushered into a period when the definition of inflation has been recast. The concept of price-level predominates. It was at this time, the distinction has been drawn between 'price inflation' and 'monetary inflation'. Thus the problem of inflation was inseparably related to the productive stages of the society. It has to be viewed through the mirror of production-level of the community. The distinction between 'price inflation' and 'monetary inflation' was a necessity only in the stage of 'optimum production'—of course, a relative optimum; a distinction intended to ensure a precision in our knowledge of the peculiar problems cropping up in the later stages of capitalism.

If we just dive deep behind the mere verbiage of definitions we shall learn that what we call 'inflation' is a phenomena of the stage of optimum production. That is why even in countries like Britain and America, 'inflation' is favoured over the rest as the best method of war finance in the early stages, since it switches on the economic system to the top gear. Till that stage is reached expansion of currency is of the nature of a lubricant. It is the first move in the game of production-drive. Of course, some friction is bound to be generated when the equilibrium is disturbed and the productive machine is forced on to a higher plane. But if the spontaneous urge of the economic system to grow is suppressed by artificial methods, expansion of currency gives rise to scarcity, misery and death. The only alternative is to eliminate the factors that tend to bring about and expansion of currency. Then can't we resort to taxation and borrowing? Taxation and borrowing also bring about the effects of currency expansion but along a different path. While

currency expansion tends to widen the economic structure and thereby satisfy the new demand, taxation and borrowing operates through curtailment of civil enjoyment. in the case of war finance. The scope for the operation for these weapons is absolutely limited in countries like India where the chief problem is one of under-production. The economy of our country breaks very soon under taxation and borrowing than under inflation, because the there can be no point lower than the lowest. As far as India is concerned, the position can be entirely summarised as follows: 'Increase production if you want us to contribute to the war effort if you are not prepared to expand our productive machinery, leave us alone without demanding any sacrifices from us.' Even then we cannot completely shelve away the problem of production. The preoccupation of other countries in a totalitarian war cannot but generate vibrations of motion which we experience in the shape of scarcity.

We can now appreciate the pitfalls one is apt to fall in when blindly imitating our comrades in Europe and America. For example, Dr. Madan, traditionally enough, assumes that inflation is method of war finance and thence begins to suggest a number of methods to fight it out, as taxation, Defence loans, etc. The effects of these cannot be otherwise than disastrous. General slump, increase of unemployment, and repetition of the Bengal tragedy on a wider scale, in short, shaking the economic system out of earth by shaking the tree to and fro, will be the result. Thus, although the difference between the scarcity and the monetary schools seems, at the outset, to be one of emphasis, yet when we thrash it a little further, we find that the emphasis is a very vital and a crucial one. A correct one too. Without this analysis we cannot explain the existence side by side of starvation and a low velocity of monetary circulation, especially of bank deposits. I can, therefore, add in conclusion, that the cry of inflation is a foolish one. At the best it can be a mischievous one. The whole problem that confronts us now is "under-production". There are methods to increase our production only if we have the will to do so. China stands as a glaring example in this direction. Why, even in England, by the policy of 'army feeding itself', 10,000 acres were brought under cultivation by the end of 1942.

D. K. Malhotra.

Mr. D. K. Malhotra (Lahore) spoke as under :—

It appears to me that it is too late in the day to deny either the existence or the seriousness of inflation in India. It would not be correct to hold that merely because adjustments to a higher level of prices do take place in course of time, such a rise is of no consequence. One has to go into the incidence of these adjustments on the daily lives of millions of people. It is from this standpoint that the whole question of inflation in India has to be examined. The speed at which currency has been expanding since the beginning of 1942 has been almost terrific. On the average Rs. 20 to 25 crores of fresh currency have gone into circulation every month, and there are no signs of an abatement in the speed of currency expansion. There can be no doubt that this currency expansion has had its effect on prices, though, of course, not every rise in prices nor the whole of the rise in prices can be attributed to currency expansion.

The problem of inflation in India is a problem of growing disequilibrium in two directions. In the first place there is a growing mal-adjustment between the total quantity of currency in circulation and the economic activity which has to be carried on with its aid. Accurate data about the different aspects of wartime economic activity in India are not available. But from such figures and estimates of production—agricultural and industrial—as are available, it would appear that economic activity has not expanded beyond 20—25 per cent. above the pre-war level. Note circulation which is the most important constituent item of currency circulation in India has, on the other hand, increased by more than 350 per cent. It would require quite an amazing feat of faith to believe that this big expansion of currency is not a serious matter from the point of view of either the present or the future of this country. The second type of mal-adjustment that has developed in India is that between the amounts of currency expansion and real resources in the two sectors of economy, *i.e.*, the war sector and the civil sector. It is to be attributed to the system of war finance followed in India, and to its failure to draw off the purchasing power that has been flowing into the civil sector as a result of wartime increase in employment and incomes, and presssing on the diminishing quantity of real resources available for consumption in the civil sector.

Directly the process of inflation arises from the inability of the Government of India to cover the whole of their disbursements including those on behalf of the Allied Governments by means of non-inflationary methods. Taxation and borrowing have sufficed in India to cover the disbursements of the Government of India on their own account, but they have not sufficed to cover the total disbursements. The gap thus created has been filled by the issue of fresh currency. Thus it would appear that inflation in India is a by-product of the system of war finance which itself has been pressed into the service of the policy of transferring resources to war use.

A number of remedies have been suggested to counteract the expansion of currency, but the one which goes to the root of the matter would aim at a reduction in the total volume of Government disbursements. That would, of course, imply a reduction in Government of India's contribution to the total war effort, but it need not mean a contraction in the total war effort itself. A part of the financial burden of war now being borne by India should be shifted on to the shoulders of the Allied nations. There must be some kind of correspondence between burdens borne and the capacity to bear them. The aid of inflation is invoked basically because the country is either not willing or not able to bear the financial cost of war, and the remedy for inflation would seem to lie in the direction of increasing the willingness as well as the capacity to bear it.

D. G. Karve.

Principal D. G. Karve's observations were as follows:

We cannot be in a position to take a scientific view of the currency expansion that is going on unless we decide a preliminary issue. How much out of the existing and prospective production is to be diverted for war purposes? U.S.A., and U.K. have definite information and ideas on this subject for their own country. Our Government does not seem to be clear on this vital question. They go on acting up to the demands made on them by the British and American authorities and thus an unchecked amount of fresh currency against sterling is being issued. No amount of caution and anti-inflationary measures will help in remedying a situation which is rendered worse and worse every day by unjustifiable drafts on the nation's

resources. Once we come out of the anti-diluvian days of automatic currency, we have to realise that money is only an instrument of economic policy, and it is the ends and the substance of this policy that matters more than some preconceived notions of currency orthodoxy or administrative expediency. During the last war Government thought, against the advice of Indian expert opinion, that to issue inconvertible paper money and to depreciate the silver contents of the rupee were unthinkable propositions in the Indian context. They have adopted these things now, and the country has taken the situation calmly. This has a moral for the present situation. If a controlled economy—production, distribution and comsumption—is an urgent social necessity, let the Government adopt it and adjust the monetary mechanism to suit the ultimate objective. Haphazard and drifting action is only causing maximum sacrifice for those who are the least able to bear it.

C. W. B. Zacharias.

Mr. C.W.B. Zacharias gave the following speech :—

As a student of Economics I am greatly concerned with the question whether the inflation we are having is deficit induced or not. To this question Dr. Madan in his speech has given a two-fold answer, yes and no. However he emphasized the fact that the expenditure of Government in India including its own expenditure and the expenditure incurred on behalf of H.M. Government was in excess of revenue, and so it was right to call it a deficit induced inflation. This jumbling together of two different kinds of expenditure does not seem to me to be proper. In respect of expenditure which the Government in India is incurring on behalf of H.M. Government it is only acting as an agent, and for all purchases made it gets paid in sterling. As long as the Government has sterling assets, whatever may happen to them in the future, it does not concern us now, the two kinds of expenditure have to be kept separate. When that is done it will be clearly seen that there is no deficit in India. In this connection I would make a strong plea for using terms in Economics with exact and unambiguous meaning. The charge is often levelled against Economists that their phraseology is vague and ambiguous. The modern tendency among economists of all lands is to develop a terminology of their

own with exactness of meaning and I believe that we too in India should adopt that practice.

The truble in India to-day as I see it is that the new money that is being created with sterling as backing is utilized for financing the purchase of consumption goods. If only that money were utilized for investment we would not have inflation in the country. I cannot agree with Mr. Satyanarayana's statement that additional currency when used to finance investment will still have inflationary effects because of the time lag. We always have the time lag with us. It is inescapable. It is present in war and in peace. But during peace time we indulge in investment without deriving inflationary effects and I do not think there is anything special about war which should lead to this result.

As an anti-inflationary measure higher taxation is sometimes suggested in India. It is argued that since the burdens have inevitably to be borne it is better that they are equitably distributed, and that would be effected through higher taxation. I quite agree with the view that the most equitable distribution of war burdens will be through taxation, and I also believe that the psychological difficulties in the way of higher taxation are greatly exaggerated. During a war period people are prepared to bear heavier burdens knowing that the economic burdens of the war have necessarily to be borne by the present generation. The economic education even in a country like India is sufficiently high to warrant higher taxation. Still in the present circumstances higher taxation is clearly ruled out in India. With what justification can the Government of India go to the legislature and ask for higher taxation when its own budget is balanced by taxes and loans? Taxation being ruled out, I would ask the Conference to give more serious consideration to two proposals that have ere now been made, viz., raising of the rate of interest and delinking of the rupee with sterling. I am not inclined to reject these off-hand as Dr. Madan has done. I claim for these two measures the same benefits as were claimed by Prof. Vakil for gold sales. If the rate of interest is raised and the Government succeeds in raising more money by way of loans, the less need there will be for injection of currency into circulation. I would also advocate the separation of the rupee from the sterling. Delinking should be accompanied by the offer

of sterling securities for sale to the Indian public by the Government. There are enough rich men in India who may be tempted to purchase sterling if it is offered at a lower price. Immediately after the last war when the German mark was tottering, speculative purchasers were not lacking in India, and I believe enough buyers of sterling too will be forthcoming in this country. This transfer of sterling securities from the Government to the people will undoubtedly be an anti-inflationary measure.

Prof. Muthiah, Mr. T. T. Krishnamachari, Prof. C. N. Vakil (*Bombay University*), **Dr. Lokanathan** (*Editor, Eastern Economist*), **Dr. V. K. R. V. Rao** (*Delhi University*) **and Dr. Gyan Chand** (*Patna University*) **also participated n the discussion.**

Disoussion on Other Topics

Prof. Govindarajan and Mr. M. K. Muniswamy participated in the discussion on "Regulation of Banking in India."

Dr. Gyan Chand (*Patna University*), **Dr. Qureshi** (*Osmania University*), **Mr. Hanumantha Rao, Mr. K. T. Merchant, and Prof. K. C. Ramakrishnan participated in the discussion on "Recent Structural Changes in the Capitalistic Economy."**

REPORT FOR THE YEAR ENDING 31st MAY, 1942.

THE INDIAN ECONOMIC ASSOCIATION.

The number of members on 31st May, 1942, was 171 as compared with 175 in 1941.

The financial position of the Association continues to be sound, the cash balance at the end of year being Rs. 5555/14/10. Besides, in accordance with the agreement with the journal, the Reserve Fund is jointly held by the Association and the Allahabad University. The income realised from subscriptions is enough to cover the cost of the journal, but the Conference numbers continue to be a heavy drain on the Association's resources. The thanks of the Association are due to Mr. S. V. Vaidyanatha Aiyar, B.A., G.D.A., R.A., of Delhi who was requested to act as Honorary Auditor in view of the transfer of the Secretary to Delhi and has audited the accounts of the year under report.

Invitations were sent to all the Directors of Public Instruction, Heads of the Affiliated Colleges, and the various departments of Government with a request that facilities should be given to the teachers of Economics to attend the conference.

I took over charge of the office of Secretary from February, 1942; and I am greatly indebted to the previous secretary, now the President, Dr. B. V. Narayanswami Naidu and Members of the Executive Committee for their help and co-operation. My task has also been made easy by the sympathetic consideration I have received from members of the Association and the Managing Editor of the Indian Journal of Economics.

10th December, 1942. V. K. R. V. RAO,
Delhi University, Delhi. *Honorary Secretary*

THE INDIAN ECONOMIC ASSOCIATION

Receipts and Payments Account for the year ended 31st May, 1942

RECEIPTS

	Rs. A. P.	Rs. A. P.
To OPENING BALANCES:—		
(*a*) Fixed Deposit with B. P. C. Limited, Bombay	1,214 2 6	
(*b*) Fixed Deposit with M. P. C. Limited, Madras	2,106 3 0	
(*c*) Prudential Deposit with Madras Provincial Co-operative Bank ...	1,618 8 6	
(*d*) Current Account with Madras Provincial Co-operative Bank Limited ...	448 7 1	
(*e*) Cash with Hon. Secretary ...	173 7 3	5,560 11 10
To INTEREST RECEIPTS :—		
On Fixed Deposits	78 14 9	
Others	31 9 0	110 7 9
To Subscriptions from 171 Members at Rs. 12	2,052 0 0	
To Advance subscriptions from 2 Members ...	24 0 0	
	2,076 0 0	
Less : Advance received last year ...	24 0 0	
	2,052 0 0	
To Associates	30 0 0	2,082 0 0
To MISCELLANEOUS :—		
Authors' contributions, etc.... ...		382 8 0
Sale of I.E.A. Reports		5 10 0
Share of Profit for 1940-41 ...		171 6 11
		8,312 12 6

PAYMENTS

	Rs. A. P.	Rs. A. P.
By Department of Economics University of Allahabad : for 125 members at Rs. 9 each and 46 members at Rs. 8 each ...	1,493 0 0	
Back Numbers	9 0 0	
Conference Numbers	1,597 12 6	
Other bills of the University ...	17 4 0	
Last year's balance	1,460 6 10	
	4,577 7 4	
Less : Amount due to the University (Cheque for Rs. 1,500 paid to the University was accounted by the Central Bank of India in June, 1942) ...	2,196 6 5	2,381 0 11
By Postage	66 12 3	
Bank Charges	6 4 3	
Printing Charges	105 12 0	
Clerical assistance and Typing ...	160 0 0	
Miscellaneous	37 0 3	375 12 9
CLOSING BALANCES :—		
Fixed Deposit with B.P.C. Limited, Bombay	1,235 1 9	
Fixed Deposit with M.P.C. Limited, Madras	2,164 2 0	
Current Account with Central Bank of India, Ahmedabad	2,156 11 1	5,555 14 10
		8,312 12 6

Checked and found correct. The carry over balance due to the Journal, Rs. 1,460-6-10 seem correct and it has been adopted instead of Rs. 1,430-6-10.

KASHMERE GATE,
18th December, 1943.

S. VAIDYANATHA AIYER,
Registered Accountant, Hon. Auditor.

V. K. R. V. RAO,
Hon. Secretary.

REPORT FOR THE YEAR ENDING 31st MAY, 1943.

THE INDIAN ECONOMIC ASSOCIATION.

The number of members on 31st May, 1943, was 164 as compared with 171 last year. The fall in membership is perhaps due to the abnormal conditions created by the War and the postponement of the Conference twice during the year. Two life members were enrolled during the year.

The financial position of the Association continues to be sound. The cash balance on 31st May, 1943, was Rs. 3861/6/11 compared with Rs. 5555/14/10 last year; but the fall is wholly due to the fact that the Association has now paid off its dues of Rs. 1460/6/10 to the journal and has actually a credit balance of Rs. 370/2/10 with them. The thanks of the Association are due to the Hon. Auditor, Mr. S. Vaidyanatha Aiyar, B. A., G. D. A., R. A., for auditing the accounts of the year under report.

Conditions have been abnormal during the year; but I hope that things will prove more satisfactory during the next year. I am greatly indebted to the President and Members of the Executive Committee for their help and co-operation. I am also thankful to the members of the Association and the Managing Editor of the Journal for the sympathetic consideration I have received throughout the year.

10th December, 1943.
Delhi University, Delhi. *Honorary Secretary.*

THE INDIAN ECONOMIC ASSOCIATION

Receipts and Payments' Accqunt for tke year ended 31st May, 1943.

RECEIPTS

	Rs. a. p.	Rs. a. p.
To OPENING BALANCES:—		
Fixed Deposit with B. P. C. Limited Bombay	1,235 1 9	
Fixed Deposit with M. P. C. Madras ...	2,:64 2 0	
Current Account with Central Bank of India	21,56 11 1	5,555 14 10
To INTEREST RECEIPTS:—		
Interest on Fixed with B. P. C. Ltd.. Bombay		21 10 0
To Subscriptions from 162 Members at Rs. 12	1,944 0 0	
2 Life Members	400 0 3	
	2,344 0 0	
Less: Received in Advance last year ...	24 7 0	
To Associates	12 0 2	2,332 0 0
To MxSCELLANEOUS:—		
Autbors' contr butions		37 8 0
Credit ior sale of Back Nos. ...		3 0 0
Profit for the year 1941-42 ...		104 8 10
		8,054 9 8

PAYMENTS

By Depaıtment of Economics Univetslty of Allahabad: for 125 members at Rs. 9/- each and 39 members at Rs. 8/- each	1,437 1 0	
Miscelladeous bills of the Department	12 6 0	
Last year's balance	2,196 6 5	
	3,645 12 5	
Credit Balance with thd Department of Economics	370 2 10	4,015 15 3
By Postage	66 0 0	
Bank Charges	9 1 0	
Printing Charges		
Clerical assistance	96 0 0	177 3 6
CLOSING BALANCES:—		
Fixed Deposit with B.P.C. Limited. Bombay.	1,256 11 9	
Current Account with Central Bank of India, Delhi.	2,604 11 2	3,861 6 11
		8,054 9 8

Checked and found correct. There is a small difference of Rs. 30/- between the credit balance in favour of the Association as shown by the Asso-Association and as shown by the accounts of the Journal. The same may please be reconciled and set right.

Kashmere Gate,
18th December, 1943.

S. VAIDYANATHA AIYAR,
Registered Accountant, Hon. Auditor.

V. K. R. V. RAO,
Hon. Secretary.

ANNUAL GENERAL MEETING OF THE INDIAN ECONOMIC ASSOCIATION.

Twenty-sixth Conference, Madras University.
December 1943—January, 1944.

The Annual General Meeting of the Indian Economic Association was held in the Madras University Buildings on the 31st December, 1943 at 3 p.m.

Present :—

Dr. B. V. Narayanaswamy Naidu, M.A., B.Com., Ph.D., Principal, Pachaiappa's College, *President.*

1. D.K. Malhotra, esq.
2. Principal D.G. Karve.
3. Principal I.M. Kapoor.
4. J.R. Shroff, Esq.
5. R.K. Bhan, Esq.
6. T. Ramachandra Rao, Esq.
7. M.G. Lakshminarasu, Esq.
8. B. Ranga Reddy, Esq.
9. Prof. C.N. Vakil.
10. Prof. J.P. Niyogi.
11. Prof. R.N. Poduval.
12. M. Abdul Qadir, Esq.
13. J.S. Raj, Esq.
14. J.J. Anjaria, Esq.
15. T. Satyanarayana Rao, Esq
16. A. Bernerdelli, Esq.
17. K.T. Merchant, Esq.
18. B. Govinda Rao, Esq.
19. P. Sri Raman, Esq.
20. Dr. A.I. Qureshi,

21. Dr. V.S. Krishna.
22. K.C. Ramakrishnan, Esq.
23. V.R. Pillai, Esq.
24. Dr. V.K.R.V. Rao.
25. Dr. P.S. Lokanathan.
26. Dr. M.S. Natarajan.
27. Prof. Gyan Chand.
28. Dr. A. Krishnaswamy.
29. Dr. B.K. Madan.
30. S. Vaidyantha Ayyar, Esq.
31. S. Ata Ullah, Esq.
32. Dr. M.S. Adiseshiah.
33. Prof. S.K. Rudra.

1. The Association placed on record its feeling of grief at the death of Prof. N. S. Subba Rao, Sir Jehangir Coyajee and Prof. S. G. Beri and resolved that its sympathy in their loss be conveyed to the families of the deceased.

2. The minutes of the last Annual General Meeting held at Bombay were confirmed.

3. The report of Hony. Secretary and Treasurer and the audited statement of accounts for the years ending 31st May, 1942 and 31st May, 1943 were considered and approved.

4. The following subjects were selected for discussion at the next Conference :—

(a) Transition from War to Peace Economy.

(b) International Economic Co-operation.

(c) Social Security with special reference to India.

(d) A current topic to be decided later by the Executive Committee.

5. The following office bearers were unanimously elected for 1944:

President :—

Prof. L. K. Hyder, Aligarh University.

Secretary and Treasurer :—

Prof. V. K. R. V. Rao, Delhi University.

Hon. Local Secretary :—

To be decided later.

Members of the Executive Committee :—

1. Prof. Gyan Chand, Patna University.
2. Prof. V. G. Kale, Poona.
3. Dr. H. L. Dey, Dacca University.
4. Prof. S. K. Rudra, Allahabad University.
5. Dr. L. C. Jain, Panjab University.
6. Dr. B. V. Narayanaswami, Madras.
7. Dr. A. I. Qureshi, Osmania University.
8. Dr. B. K. Madan, Bombay.
9. Prof. C. N. Vakil, Bombay University.
10. Prof. V. L. D'Souza, Mysore University.
11. Prof. J. P. Niyogi, Calcutta University.
12. Dr. P. S. Lokanathan, Delhi.

6. It was resolved that the Hon. Auditor, Mr. S. V. Vaidyanatha Aiyar, B.A., G.D.A., R.A. be thanked for his kindness in auditing the accounts of the Association for the years 1941-42 and 1942-43; and that he be requested to act as Hony. Auditor for the year 1944.

7. The following gentlemen were elected to represent the Association on the Board of the Journal:

1. Prof. V. G. Kale.
2. Dr. P. S. Lokanathan.
3. Dr. A. I. Qureshi.
4. Prof. D. Ghosh.

8. It was resolved that the venue of the next conference be determined by the Secretary in consultation with the President.

9. The following resolutions were passed on the recommendation of the Executive Committee:

(a) That a permanent Fund of the Association be started to which all subscriptions from life members be credited and invested in G. P. Notes.

(b) (i) That the Association's contract with the University of Allahabad regarding the the Journal be terminated as soon as possible and that the necessary notice be sent to the University by the Secretary.

(ii) That a Committee consisting of the President, the Secretary, Prof. Vakil, Prof. Gyan Chand and Prof. Rudra be appointed to formulate definite proposals regarding the future of the Journal for being placed before the next annual meeting of the Association.

(c) That a committee consisting of Prof. M. K. Ghosh (Convener), Dr. S. G. Panandikar, Principal D. G. Karve, and Principal I. M. Kapoor be appointed to prepare a memorandum (to be printed in the next conference number) on the syllabuses in Commerce and Statistics in Indian Universities and that this be discussed at the next conference.

10. A vote of thanks was passed to the Madras University, the organisers of the Conference and the retiring office-bearers of the Association.

(Sd.) V. K. R. V. Rao, *Hony. Secretary.*

(Sd.) B. V. Narayanaswami, *President.*